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THE BEST OF 1992

IDEAS
PAGE 107

ESS WEEK
January 11

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BusinessWeek

ARY 11, 1993 A McGRAW-HILL PUBLICATION $2.75

WHAT'S AHEAD FOR AMERICA'S 24 KEY INDUSTRIES

INDUSTRY OUTLOOK 1993

UTOS DEFENSE MACHINERY SEMICONDUCTORS RETAILING

HOLESALING HEALTH CARE TRANSPORTATION RESTAURANTS UTILITIES

NTERTAINMENT COMPUTERS ENERGY COMMUNICATIONS

HEMICALS PHARMACEUTICALS STEEL INSURANCE BANKING

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Dr. Martin C. Jischke,
President,
Iowa State University

George Strawn,
Director of the Computation Center,
Iowa State University

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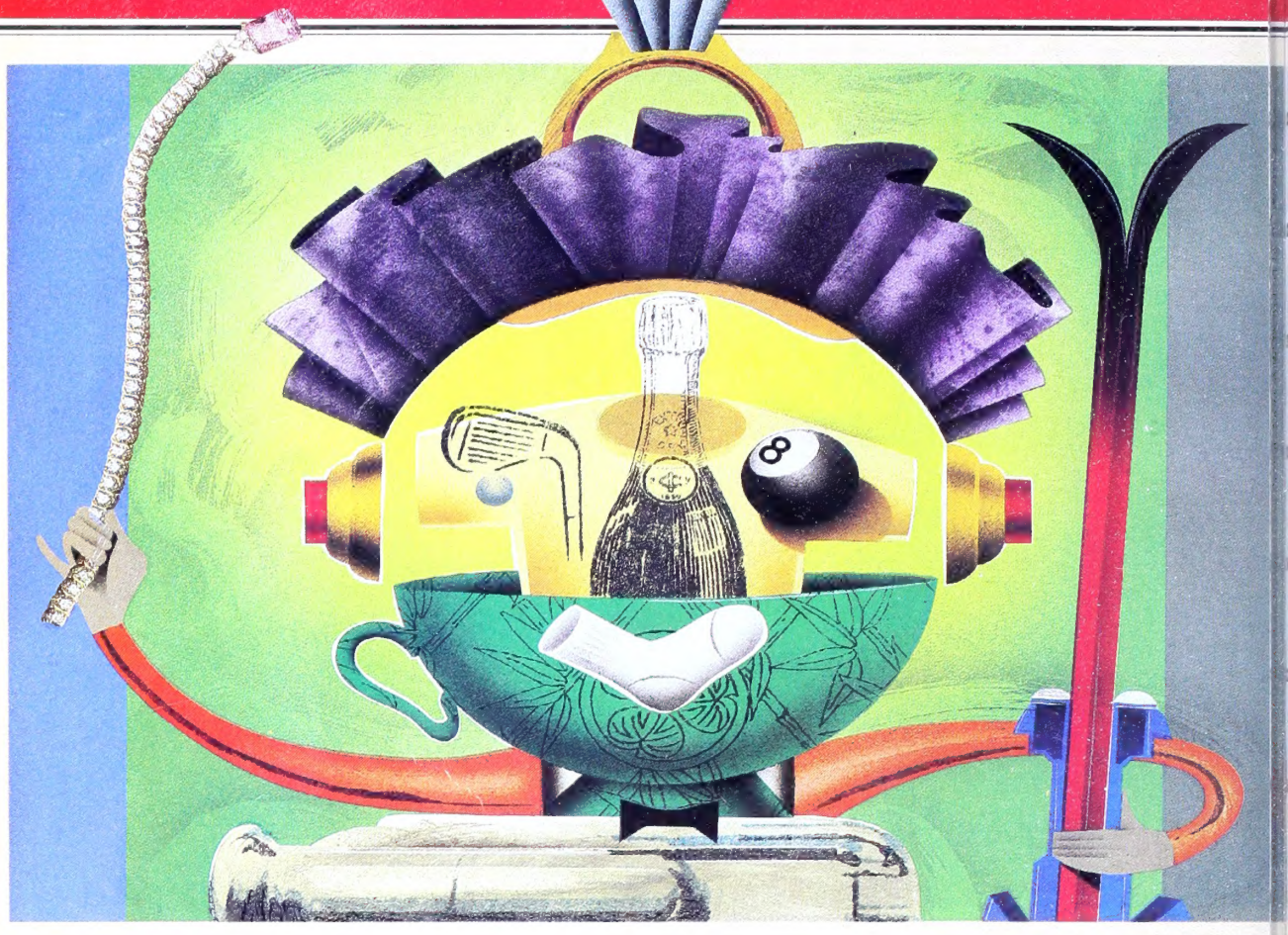

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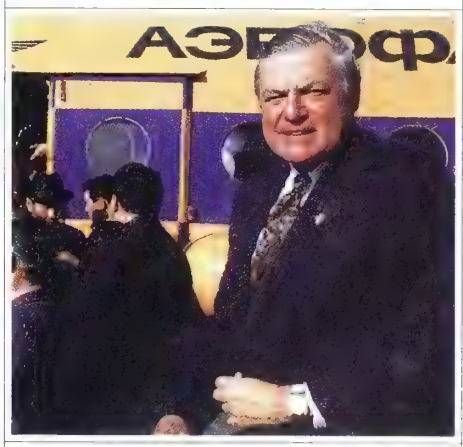

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Keep open-sky signals loud and clear
One European market, step by step

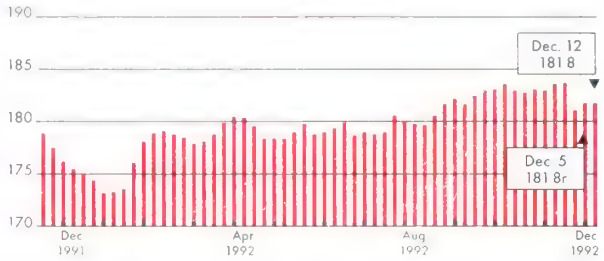
s Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. U. S. subscriber rate $44.95 per year. In Canada, one year: CDN $66. Single copies, $2.75; back issues, $5. ve, Editorial, Circulation, and Advertising Offices 1221 Avenue of the Americas, New York, N. Y. 10020. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at al, P. Q. Registration Number 9010. Title Reg. in U. S. Patent Office. **Postmaster:** Send address changes to BUSINESS WEEK. P. O. Box 430, Hightstown, N. J. 08520

BusinessWeek Index

PRODUCTION

Change from last week: 0.0%
Change from last year: 3.6%

1967=100 (four-week moving average)

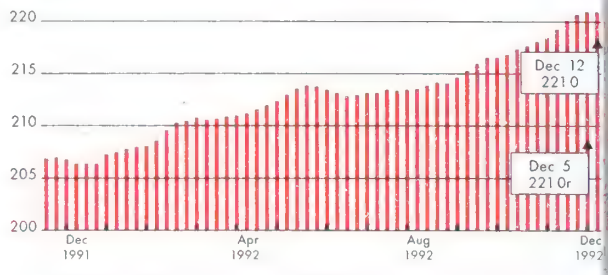


The production index was unchanged for the week ended Dec. 12. On a seasonally adjusted basis, increases in the output levels of steel, coal, trucks, electric power, and paper offset declines in production of autos, crude-oil refining, and paperboard and rail-freight traffic. Lumber production was flat compared to the previous week. Before calculation of the four-week moving average, the index was also unchanged at 184.6.

BW production index copyright 1992 by McGraw-Hill Inc

LEADING

Change from last week: 0.0%
Change from last year: 7.1%



The leading index was virtually unchanged during the week ended Dec. 1 Higher stock prices, lower bond yields, a sharp decline in the number of busine failures, and improvement in the growth rates of materials prices and real esta loans augur well for the economy's future. However, the growth in M2 declined f the week. Before calculation of the four-week moving average, the index rose 221.5, from 220.7 in the previous week.

Leading index copyright 1992 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (12/19) thous. of net tons	1,661	1,697#	-0.2
AUTOS (12/19) units	141,023	130,332r#	16.9
TRUCKS (12/19) units	103,582	98,948r#	41.2
ELECTRIC POWER (12/19) millions of kilowatt-hours	59,674	61,073#	-2.3
CRUDE-OIL REFINING (12/19) thous. of bbl./day	13,276	13,158#	-1.4
COAL (12/12) thous. of net tons	19,878#	19,165	-2.7
PAPERBOARD (12/12) thous. of tons	758.7#	796.2	-2.8
PAPER (12/12) thous. of tons	773.0#	759.0r	0.3
LUMBER (12/12) millions of ft	484.7#	475.2	-5.8
RAIL FREIGHT (12/12) billions of ton-miles	22.0#	22.2	2.8

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (12/23)	124	123	126
GERMAN MARK (12/23)	1.59	1.55	1.51
BRITISH POUND (12/23)	1.52	1.58	1.89
FRENCH FRANC (12/23)	5.44	5.31	5.15
CANADIAN DOLLAR (12/23)	1.26	1.28	1.16
SWISS FRANC (12/23)	1.44	1.40	1.34
MEXICAN PESO (12/23)	3,101	3,117	3,076

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (12/23) $/troy oz.	333.350	337.300	-7.3
STEEL SCRAP (12/22) #1 heavy, $/ton	92.50	92.50	-0.5
FOODSTUFFS (12/21) index, 1967=100	198.7	204.0	-2.6
COPPER (12/19) ¢/lb.	103.5	103.0	1.5
ALUMINUM (12/19) ¢/lb.	56.5	54.5	10.8
WHEAT (12/19) #2 hard, $/bu	3.76	3.78	-7.8
COTTON (12/19) strict low middling 1-1/16 in., ¢/lb.	51.44	52.59	-5.2

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Cha year
STOCK PRICES (12/18) S&P 500	434.73	435.26	1
CORPORATE BOND YIELD, Aaa (12/18)	7.99%	8.00%	-
INDUSTRIAL MATERIALS PRICES (12/18)	96.8	97.0	
BUSINESS FAILURES (12/11)	358	457	
REAL ESTATE LOANS (12/9) billions	$402.2	$400.2	1
MONEY SUPPLY, M2 (12/7) billions	$3,434.6	$3,467.8r	
INITIAL CLAIMS, UNEMPLOYMENT (12/5) thous.	347	325r	-2

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bra street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally ad data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Cha year
PERSONAL INCOME (Nov.) annual rate, billions	$5,149.9	$5,139.2r	
CONSUMER SPENDING (Nov.) billions	$4,196.7	$4,174.9r	
ORDERS FOR DURABLE GOODS: MFG. (Nov.) billions	$122.9	$125.3r	
BUDGET SURPLUS OR DEFICIT (-) (Nov.) millions	-$32,730	-$48,865	2

Sources: Commerce Dept., Treasury Dept

MONETARY INDICATORS

	Latest week	Week ago	% Cha year
MONEY SUPPLY, M1 (12/7)	$1,022.5	$1,020.1r	1
BANKS' BUSINESS LOANS (12/9)	277.1	280.3	-
FREE RESERVES (12/9)	791	1,224r	5
NONFINANCIAL COMMERCIAL PAPER (12/2)	148.9	150.9	1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed f two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	
FEDERAL FUNDS (12/22)	2.97%	3.17%	4.2
PRIME (12/23)	6.00	6.00	7.0
COMMERCIAL PAPER 3-MONTH (12/22)	3.57	3.71	3
CERTIFICATES OF DEPOSIT 3-MONTH (12/22)	3.33	3.43	4.3
EURODOLLAR 3-MONTH (12/18)	3.48	3.54	4

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipm
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Readers Report

THE ULTIMATE 'OFF' BUTTON IS AT THE FCC

BUSINESS WEEK reports that Mel Karmazin (president of Infinity Broadcasting) "winced ... when he recently heard [Howard] Stern say on the air that he prayed that the prostate cancer of FCC Chairman Alfred C. Sikes would spread" ("Howard Stern's boss gets an earful," Media, Dec. 21). But Karmazin, who is Stern's boss, says: "That's why they make on-off buttons."

The Federal Communications Commission also has on-off buttons for broadcasters with no sense of public responsibility or commitment to the public interest. If Karmazin's idea of the public interest is to keep Stern "on," then Karmazin's button should be pushed "off."

Newton N. Minow
Chicago

Editor's note: Minow was chairman of the FCC from 1961 to 1963.

FAULT DEADBEAT PARENTS, NOT NO-FAULT DIVORCE

Gary S. Becker's proposed change in policy, and one befitting a University of Chicago economist, is to depend exclusively on the marketplace to work its wonders by mandating that before a divorce is granted, the consent of the woman be required ("Finding fault with no-fault divorce," Economic Viewpoint, Dec. 7). This presumably would result in the wife being able to coerce her husband into agreeing to a financial settlement of a sufficient amount to provide his wife and children with an acceptable standard of living. The more a husband wants to end a marriage, the larger the settlement would potentially be. Life can sure be simple to an economist.

A major reason for the precarious financial condition of many divorced women and their children is that all too often, negotiated financial settlements, which could provide women with a decent standard of living, are not maintained by husbands. Not enough is being done to force them to abide by these agreements. Becker's proposal, while it could increase the amount of some financial settlements, would do little to address the fact that state governments collect on less than 20% of the cases of child-support nonpayment. More important, his proposal would again enable one partner to enslave the other by refusing to consent to a divorce.

Lester E. Block, Past Director
Program in Public Health
Administration
University of Minnesota
Minneapolis

The bottom line remains the enforcement of existing laws. How do you get deadbeats to pay? How do you get a dangerous spouse to honor court orders to stay away? How do you get an otherwise good person to visit their children? Mutual consent solves none of these. It's like saying, "Gee, that dog bit me. Maybe if we call it a cat ..."

Linda R. Knudsen
Wichita

WHAT'S SO SACRED ABOUT TENURE, ANYWAY?

Your article "Where are all the female B-school profs?" (Top of the News, Dec. 7) is interesting, but it avoids the real issue: Why tenure for anyone? What other "business" could succeed with a system that removes any need for continued success?

Stuart R. Scheyer
Mundelein, Ill.

NOT ALL BILL COLLECTORS ARE BULLIES

Your article, "Beware, bully-boy bill collectors" (Finance, Nov. 16) did not mention that consumer complaints about debt collectors made to the FTC have decreased from more than 4,000 per year in the late 1970s, when the Fair Debt Collection Practices Act was enacted, to around 2,000 in 1992. When compared with the increase in the number of consumer-credit transactions and the number of accounts placed for collection, complaints have decreased by more than 50%. The member businesses of the American Collectors Assn. were called upon by creditors to contact more than 12 million American consumers in

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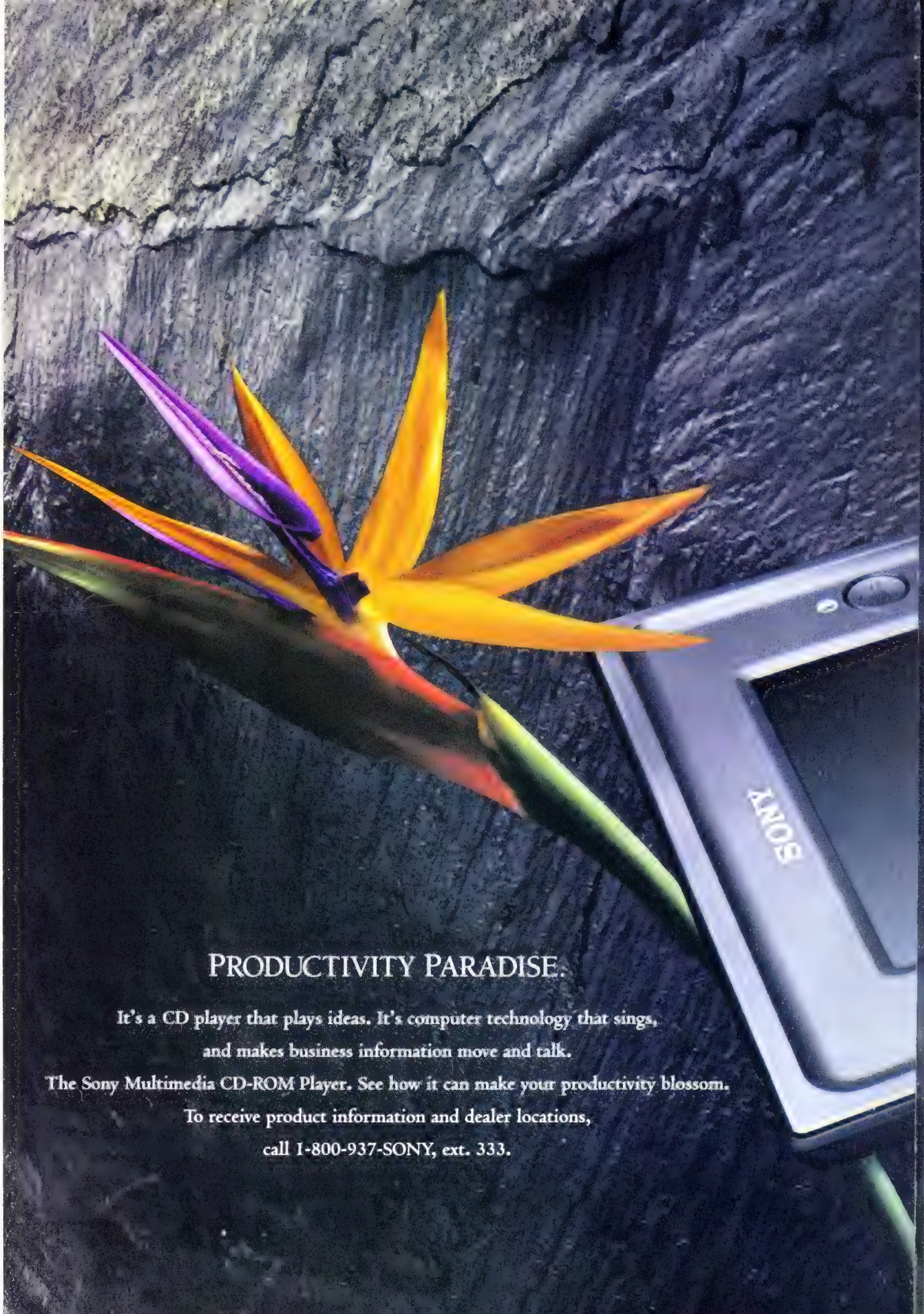
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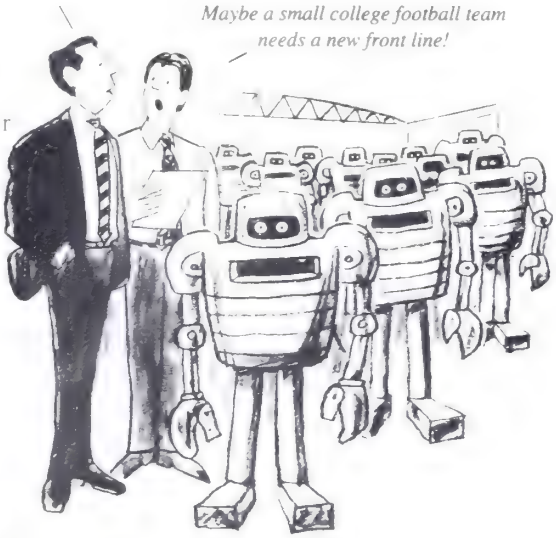

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Readers Report

CORRECTIONS & CLARIFICATIONS

In the story "Duracell looks abroad fr more juice" (The Corporation, Dec. 2 we misstated Duracell Internationa Inc.'s share of the U. S. retail mark for consumer alkaline batteries. It hs a 45% share.

1992. Although 2,000 complaints are v few given the millions of contacts ma the association and its members striving to reduce complaints.

The association supported the passa of the Fair Debt Collection Practi Act, which protects consumers, a worked to see that attorneys engag primarily in debt collection were a covered by the act. In addition, the gives more than 200 seminars each y to educate collectors about professio conduct and compliance with the law

William L. Ry
Administrative Vice-Presid
American Collectors As
Minneapo

NISSAN: MADE IN THE U. S. A.

Regarding the letter "Nissan Ford: Comparing values" (Read Report, Nov. 30), Kenneth M. Tka states that "sales of the Altima are c rently running below company expec tions." In fact, Nissan's new Altima exceeding all company expectations, a in November, the vehicle set an all-ti Nissan sales record for midsize seda The Nissan dealer body and the m new owners of Altima are extrem pleased with the value and qual Tkatch is obviously under the impress that the Altima is made in Japan. fact, the Altima is built in Smyr Tenn., where more than 6,000 Americ make their living building Nissan c and trucks.

Fred H. Miller, Presid
Nissan National Dealer Advisory Bo
Dealer Princi
Miller Nis
Van Nuys, Ca

A BEEF AT TACO BELL

Your article "Indigestion at T Bell" (The Corporation, Dec. was just plain unfair, and it reflecte shocking ignorance of the restaurant industry, best illustrated by your desc tion of Taco Bell sales as "lackluster

Is this a joke? Taco Bell's aver restaurant sales have grown at m than 11 times the industry growth r

ıce 1988, making dozens of our fran-
isees multimillionaires. During that
ne, our average sales have grown by
%, while industry real growth has only
en 3.5%. Your characterization of our
rformance is absurd.

John E. Martin
President, CEO
Taco Bell Corp.
Irvine, Calif.

*litor's note: A chart with the story
owed that Taco Bell's same-store
les growth had slowed substantially
ıce 1990.*

I OBSCURE BANK LAW ULD BRING A BONANZA

eep in the article "Money with strings attached" (Finance, Dec. 21) an essential point concerning alleged nk tie-ins that should not be missed. ing by banks is subject to a unique al prohibition that gives any corpo-e bond issuer or borrower that feels timized the right to sue for treble mages.

Investment banks and others that mpete directly with commercial banks n tie identical packages of services but e not covered by this prohibition or its ble-damage provision. It is notewor-y that these allegations against banks me primarily from a few companies olved in legal disputes with banks, her for nonpayment of fees or loans, from Morgan Stanley and its trade sociation. The latter is motivated to otect the oligopolistic position of a ndful of securities firms from legiti-ate bank competition.

William H. Brandon Jr.
President
American Bankers Assn.
Washington

NK BONDS AREN'T E PROBLEM—GREED IS

Your review "The biggest Ponzi scheme of them all?" of *A License Steal*, by my son, Benjamin J. Stein ooks, Dec. 14), misses the point of the ok. It also misses an important point out the world.

The book is not a history or evaluation junk bonds in general. The book says at Michael Milken and certain other med individuals engaged in certain ecific transactions, in violation of fidu-ry responsibilities, using junk bonds a vehicle, with the result that these lividuals wound up much richer and rge numbers of depositors, pensioners, d taxpayers wound up poorer. This count is based on years of research by e author, who is a lawyer and student economics and finance.

These things either happened or they

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Readers Report

didn't happen. Your reviewer does offer a shred of evidence that they not happen. He says they could not happen because they would "defy logic."

We would be better off to recognize that such things happen, and consider how to prevent them, than to pull the covers up over our heads and act as nothing did, or could, go wrong.

Herbert S
Washing

IF HIGH SCHOOL REALLY MATTERED

Alan Blinder's suggestion, in his column "Adam Smith meets Al Shanker" (Economic Viewpoint, Dec. would do more than all of the educa conferences and curriculum reports ward improving the dismal academic sults in our high schools. "Suppose ery company in the BUSINESS WEEK 1 routinely asked young applicants their high school transcripts—and this information in hiring decisio This one, low-cost decision would rep rhetoric with action, and within year, every high school in the cour could push the motto "Just say kno

Bruce Willian
Profes
Mathematics/Computer Syst
University of Wisconsin at River F
River Falls, W

NO WINDFALL FOR FARM CREDIT

Your article "Banks that believe many towns called Hope" (Fina Nov. 30), about community developm banks, unfortunately perpetuated a tual error about the Farm Credit tem, as well as some self-serving pr ganda from the commercial ban industry.

To set the record straight, the FCS not receive an "infusion of $4 bi from the government" stemming f the agricultural depression of the 19 What Congress did was allow the tem to issue privately financed a tance bonds, of which only $1.26 bi was used before the assistance auth expired earlier this year. It wasn' billion, and it didn't come from government.

Myron L. Edle
Chair
Farm Credit Co
Washin

Letters to the Editor should be sent to Re Report, Business Week, 1221 Avenue of the A cas, New York, N. Y. 10020. Fax: (212) 512- Telex: 12-7960, Intl. 4998204. All letters mu clude an address and daytime and evening phone numbers. We reserve the right to edit for clarity and space.

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BANKRUPTCY 1995: THE COMING COLLAPSE OF AMERICA AND HOW TO STOP IT
By Harry E. Figgie Jr. with Gerald J. Swanson
Little Brown • 206pp • $19.95

DEFICIT APOCALYPSE NOW! (SAYS FIGGIE)

Ross Perot, meet Harry Figgie. These two guys, who surely don't need the money, have developed pretty good day jobs as latter-day Cassandras. Mr. Perot, of course, got 20 million votes and sold more than a few books by blasting the politicians and lobbyists in Washington for looting the Treasury.

Mr. Figgie isn't running for office. But he, too, is doing pretty well in the doomsday business. Helped along by an apocalyptic title, his *Bankruptcy 1995* has had a solid run on the best-seller lists. In it, Figgie forecasts a U. S. economy that will look much like Russia's if the deficit isn't dealt with.

At least Perot came up with a solution. It's true that he never talked about it very much, but give the man his due. He publicly admitted that cutting the deficit would mean reducing benefits for the middle class and for the elderly, and even, heaven forbid, raising taxes.

That's more than can be said for Figgie, chairman of Cleveland-based Figgie International Inc. and a veteran of the Reagan-era Grace Commission, which tried to ferret out federal waste, fraud, and abuse. Figgie lays the problem out all right. Indeed, the hyperbole fairly flows: The economy, he warns, will sink into absolute ruin by 1995 if the deficit isn't brought under control. Yet when it comes to solutions, Figgie sounds—dare I say it?—like a politician.

His predictions of economic ruin are, frankly, silly. If the deficit goes unchecked, he anticipates a currency collapse, widespread bank failures, massive layoffs, cuts in Social Security benefits, and hyperinflation.

I would like to make Figgie a little wager. I will bet him a year's pay—his, not mine—that by 1995, the annual deficit will still be in the neighborhood of $150 billion to $200 billion, and even so, our currency will be strong, inflation will be quite modest, and the U. S. economy will be, overall, healthier than it is today.

That is not to say that the deficit doesn't matter. And one of Bill Clinton's biggest challenges will be to bring it under control. But the consequences are more insidious and much longer-term than Figgie suggests. For instance, a responsible fiscal policy ought to mean lower real interest rates. And getting a handle on interest payments would fr up billions of dollars that could be put more productive uses. But that's not t same as saying that bumping along we have will cause hyperinflation in tw years.

Former Senator Warren Rudman (N. H.), a longtime deficit hawk, prais Figgie to the heights in his introductio *Bankruptcy 1995*, says Rudman, de with the deficit "in a brutally hone straightforward manner." Rudm should know better. When it comes the hard part—how to cut the deficit Figgie fizzles. He opposes any tax hik but he doesn't ever say where he wou get the $1 trillion in spending reductio that would be necessary to balance t budget by the end of the decade. stead, he proposes appointing a "defi general" and a sm "deficit army" to fi spending cuts.

That's a cop-out. We ready have a deficit ge eral. He's called the Pre dent. The last one did do the job, and he w fired. If the next o doesn't do the job, should be fired, too. Mo bureaucrats are not t answer.

Figgie does seem care genuinely about t problem, but that's o half the battle. For rea ers who want to kn how to fix the thin there are some bett choices. For instance, t Committee for Economic Developme based in New York, has just publishe report called *Restoring Prosperi Budget Choices for Economic Grow* It doesn't have much of a beat, and y sure can't dance to it, but *Bud Choices* is a serious look at the defi its consequences, and some real so tions. Oh, and at $14.50, it's 25% chea than Figgie's effort.

BY HOWARD GLECKM

Washington Correspondent Gleckman c ers financial policy.

Oh, does Figgie's hyperbole flow: Currency collapse, vast layoffs, bank failures

BOOK BRIEFS

RUSSIA'S SECRET RULERS
By Lev Timofeyev
Knopf • 177pp • $21

RED-HANDED RUSSIA

If ever there were a cure for naivete, it's Lev Timofeyev. When I worked in Moscow, I would occasionally walk past the usual KGB surveillance car and take the noisy elevator up to Timofeyev's apartment. There, the bearded economist, dissident, and underground publisher would proceed to knock out of my head some of the sillier ideas about Gorbachev, *glasnost*, and *perestroika*.

If you want the same treatment, read *Russia's Secret Rulers: How the Government and Criminal Mafia Exercise Their Power*. In it, Timofeyev reminds us how corrupt the communist system was. Moral decay was so pervasive, he says, that it will be nearly impossible for the Russian people to build a democratic society and a free-market economy. T necessary values—the rule of law, eq opportunity, trust, and honesty—w long ago snuffed out.

Of course, Timofeyev writes, there ways was a kind of free market in Soviet Union: Everything from local p ty posts to state allocations of build materials was for sale. And virtually ery former and current leader, includ Gorbachev and Yeltsin, grew up in a took part in that environment.

Timofeyev knows what he's talk

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w Rogaine grows hair:

AINE works in part by prolonging growth phase. With more hairs ring longer and thicker at the same e, you may see improved scalp rage.

o one can predict how well ROGAINE work for you. But research suggests patients having a large number rowing hairs (at least 3/8 inch or er) seem to have a better response. ermatologists conducted 12-month ical tests. After 4 months, 26% of ents using ROGAINE reported lerate to dense hair regrowth, compared with 11% of those using a placebo (a similar solution without minoxidil — the active ingredient in ROGAINE). After 1 year, 48% of the men who continued in the study using ROGAINE rated their regrowth as moderate to dense. Thirty-six percent reported minimal regrowth. The rest (16%) had no regrowth.

Side effects were minimal: 7% of those who used ROGAINE had itching of the scalp. ROGAINE should only be applied to a normal, healthy scalp (not sunburned or irritated).

Make a 4 to 6 month commitment to see results:

Studies indicate that *at least 4 months of twice-daily treatment* with ROGAINE are usually necessary before there is evidence of regrowth.

As you'd expect, if you are older, balding longer, or have a larger area of baldness, you may do less well.

ROGAINE is a treatment, not a cure. So further progress is possible only by using it continuously. Some anecdotal reports indicate that if you stop using ROGAINE, you will probably shed the newly regrown hair within a few months.

Here's what you should do:

Individual results vary widely. So discuss your hair loss with your doctor to understand what you can realistically expect. Only a doctor can prescribe ROGAINE. So see a *dermatologist or another doctor experienced in treating hair loss* today. Why just accept what nature has handed you when you can fight back?

For more information, a list of doctors near you, and a $10 certificate as an incentive to visit your doctor, call this toll-free number: 1-800-685-7586.

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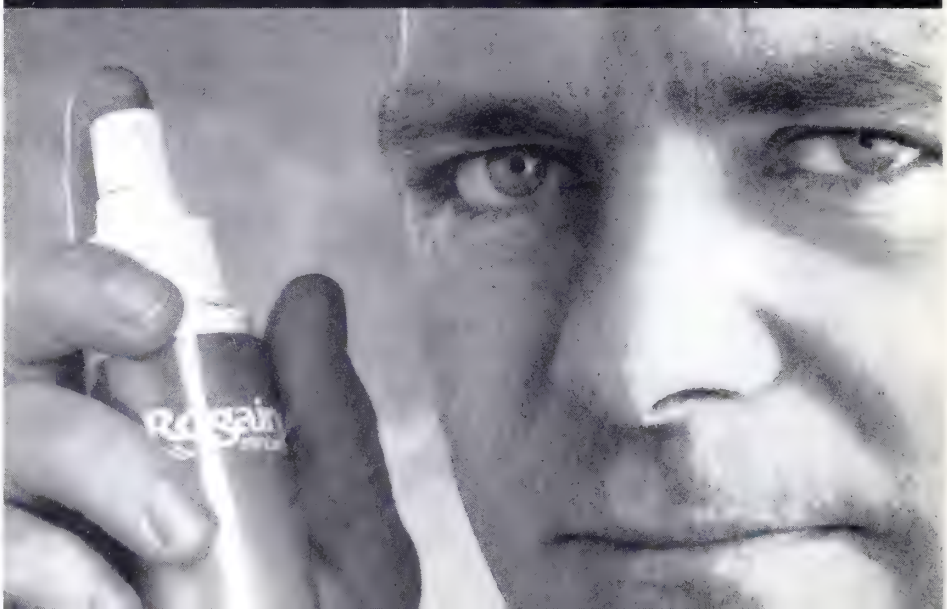

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The only product ever proven to regrow hair.

What is ROGAINE?
ROGAINE Topical Solution is a prescription medicine for use on the scalp that is used to treat a type of hair loss in men and women known as androgenetic alopecia: hair loss of the scalp vertex (top or crown of the head) in men and diffuse hair loss or thinning of the front and top of the scalp in women. ROGAINE is a topical form of minoxidil, for use on the scalp.

How effective is ROGAINE?
In men: Clinical studies with ROGAINE of over 2,300 men with male pattern baldness involving the top (vertex) of the head were conducted by physicians in 27 US medical centers. Based on patient evaluations of regrowth at the end of 4 months, 26% of the patients using ROGAINE had moderate to dense hair regrowth compared with 11% who used a placebo treatment (no active ingredient). No regrowth was reported by 41% of those using ROGAINE and 60% of those using a placebo. By the end of 1 year, 48% of those who continued to use ROGAINE rated their hair growth as moderate or better.
In women: Clinical studies with ROGAINE were conducted by physicians in 11 US medical centers involving 256 women with hair loss. Based on patient evaluations of regrowth after 32 weeks (8 months), 19% of the women using ROGAINE had at least moderate regrowth compared with 7% of those using a placebo. No regrowth was reported by 41% of the group using ROGAINE and 60% of the group using placebo.

How soon can I expect results from using ROGAINE?
Studies show that the response time to ROGAINE may differ greatly from one person to another. Some people using ROGAINE may see results faster than others, others may respond with a slower rate of hair regrowth. You should not expect visible regrowth in less than 4 months.

How long do I need to use ROGAINE?
ROGAINE is a hair-loss treatment, not a cure. If you have new hair growth, you will need to continue using ROGAINE to keep or increase hair regrowth. If you do not begin to show new hair growth with ROGAINE after a reasonable period of time (at least 4 months), your doctor may advise you to discontinue using ROGAINE.

What happens if I stop using ROGAINE? Will I keep the new hair?
Probably not. People have reported that new hair growth was shed after they stopped using ROGAINE.

How much ROGAINE should I use?
You should apply a 1-mL dose of ROGAINE twice a day to your clean dry scalp, once in the morning and once at night before bedtime. Wash your hands after use if your fingers are used to apply ROGAINE. ROGAINE must remain on the scalp for at least 4 hours to ensure penetration into the scalp. Do not wash your hair for at least 4 hours after applying it. If you wash your hair before applying ROGAINE, be sure your scalp and hair are dry when you apply it. *Please refer to the Instructions for Use* in the package.

What if I miss a dose or forget to use ROGAINE?
Do not try to make up for missed applications of ROGAINE. You should restart your twice-daily doses and return to your usual schedule.

What are the most common side effects reported in clinical studies with ROGAINE?
Itching and other skin irritations of the treated scalp area were the most common side effects directly linked to ROGAINE in clinical studies. About 7 of every 100 people who used ROGAINE (7%) had these complaints.
Other side effects, including light-headedness, dizziness, and headaches, were reported both by people using ROGAINE and by those using the placebo solution with no minoxidil. You should ask your doctor to discuss side effects of ROGAINE with you.
People who are extra sensitive or allergic to minoxidil, propylene glycol, or ethanol should not use ROGAINE.
ROGAINE Topical Solution contains alcohol, which could cause burning or irritation of the eyes or sensitive skin areas. If ROGAINE accidentally gets into these areas, rinse the area with large amounts of cool tap water. Contact your doctor if the irritation does not go away. If the spray applicator is used, avoid inhaling the spray.

What are some of the side effects people have reported?
ROGAINE was used by 3,857 patients (347 females) in placebo-controlled clinical trials. Except for dermatologic events (involving the skin), no individual reaction or reactions grouped by body systems appeared to be more common in the minoxidil-treated patients than in placebo-treated patients.
Dermatologic: irritant or allergic contact dermatitis—7.36%, **Respiratory:** bronchitis, upper respiratory infection, sinusitis—7.16%, **Gastrointestinal:** diarrhea, nausea, vomiting—4.33%, **Neurologic:** headache, dizziness, faintness, light-headedness—3.42%, **Musculoskeletal:** fractures, back pain, tendinitis—2.59%, **Cardiovascular:** edema, chest pain, blood pressure increases/decreases, palpitations, pulse rate increases/decreases—1.53%, **Allergic:** nonspecific allergic reactions, hives, allergic rhinitis, facial swelling, and sensitivity—1.27%, **Metabolic-Nutritional:** edema, weight gain—1.24%, **Special Senses:** conjunctivitis, ear infections, vertigo—1.17%, **Genital Tract:** prostatitis, epididymitis, vaginitis, vulvitis, vaginal discharge/itching—0.91%, **Urinary Tract:** urinary tract infections, renal calculi, urethritis—0.93%, **Endocrine:** 0.47%, **Psychiatric:** anxiety, depression, fatigue—0.36%, **Hematologic:** lymphadenopathy, thrombocytopenia—0.31%.
ROGAINE use has been monitored for up to 5 years, and there has been no change in incidence or severity of reported adverse reactions. Additional adverse events have been reported since marketing ROGAINE and include eczema, hypertrichosis (excessive hair growth), local erythema (redness), pruritus (itching), dry skin/scalp flaking, sexual dysfunction, visual disturbances, including decreased visual acuity (clarity), increase in hair loss, and alopecia (hair loss).

What are the possible side effects that could affect the heart and circulation when using ROGAINE?
Serious side effects have not been linked to ROGAINE in clinical studies. However, it is possible that they could occur if more than the recommended dose of ROGAINE was applied, because the active ingredient in ROGAINE is the same as that in minoxidil tablets. These effects appear to be dose related, that is, more effects are seen with higher doses.
Because very small amounts of minoxidil reach the blood when the recommended dose of ROGAINE is applied to the scalp, you should know about certain effects that may occur when the tablet form of minoxidil is used to treat high blood pressure. Minoxidil tablets lower blood pressure by relaxing the arteries, an effect called vasodilation. Vasodilation leads to fluid retention and faster heart rate. The following effects have occurred in some patients taking minoxidil tablets for high blood pressure:
Increased heart rate: some patients have reported that their resting heart rate increased by more than 20 beats per minute.
Salt and water retention: weight gain of more than 5 pounds in a short period of time or swelling of the face, hands, ankles, or stomach area.
Problems breathing: especially when lying down, a result of a buildup of body fluids or fluid around the heart.
Worsening or new attack of angina pectoris: brief, sudden chest pain.
When you apply ROGAINE to normal skin, very little minoxidil is absorbed. You probably will not have the possible effects caused by minoxidil tablets when you use ROGAINE. If, however, you experience any of the possible side effects listed above, stop using ROGAINE and consult your doctor. Any such effects would be most likely if ROGAINE was used on damaged or inflamed skin or in greater than recommended amounts.
In animal studies, minoxidil, in much larger amounts than would be absorbed from topical use (on skin) in people, has caused important heart-structure damage. This kind of damage has not been seen in humans given minoxidil tablets for high blood pressure at effective doses.

What factors may increase the risk of serious side effects with ROGAINE?
People with a known or suspected heart condition or a tendency for heart failure would be at particular risk if increased heart rate or fluid retention were to occur. People with these kinds of heart problems should discuss the possible risks of treatment with their doctor if they choose to use ROGAINE.
ROGAINE should be used only on the balding scalp. Using ROGAINE on other parts of the body may increase minoxidil absorption, which may increase the chances of having side effects. You should not use ROGAINE if your scalp is irritated or sunburned, and you should not use it if you are using other skin treatments on your scalp.

Can people with high blood pressure use ROGAINE?
Most people with high blood pressure, including those taking high blood pressure medicine, can use ROGAINE but should be monitored closely by their doctor. Patients taking a blood pressure medicine called guanethidine should not use ROGAINE.

Should any precautions be followed?
People who use ROGAINE should see their doctor 1 month after starting ROGAINE and at least every 6 months thereafter. Stop using ROGAINE if any of the following occur: salt and water retention, problems breathing, faster heart rate, or chest pains.
Do not use ROGAINE if you are using other drugs applied to the scalp such as corticosteroids, retinoids, petrolatum, or agents that might increase absorption through the skin. ROGAINE is for use on the scalp only. Each 1 mL of solution contains 20 mg minoxidil, and accidental ingestion could cause unwanted effects.

Are there special precautions for women?
Pregnant women and nursing mothers should not use ROGAINE. Also, its effects on women during labor and delivery are not known. Efficacy in postmenopausal women has not been studied. Studies show the use of ROGAINE will not affect menstrual cycle length, amount of flow, or duration of the menstrual period. Discontinue using ROGAINE and consult your doctor as soon as possible if your menstrual period does not occur at the expected time.

Can ROGAINE be used by children?
No, the safety and effectiveness of ROGAINE has not been tested in people under age 18.
Caution: Federal law prohibits dispensing without a prescription. You must see a doctor to receive a prescription.

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about. While imprisoned in the mid-19 for publishing unorthodox articles economics, he had a cell mate nam Vakhab Usmanov, an Uzbek official w was later executed for bilking Mosc out of millions of rubles in an elabor scam involving overcharges for cot shipments. When prosecutors told manov to list everyone he had bribed, soon provided more than 400 names.

In Timofeyev's view, it's ridiculous expect massive sell-offs of state-own assets, a key element of Yeltsin's forms, to be carried out honestly. same officials who crookedly admi tered state property, he says, will range for it to be sold to them. Alrea cynical Russians have invented a bit wordplay for the privatization campai It's not *privatizatsia*, they laugh, *prikhvatizatsia*—to grab.

Timofeyev doesn't really deliver exposé promised by his subtitle, and use of a question-and-answer forma annoying. Still, his downbeat messag an intriguing explanation of why it is hard for Russia to proceed with refo

BY PETER GALUS

THE BUBBLE ECONOMY
By Christopher Wood
Atlantic Monthly Press • 210pp • $21

THE SETTING SUN?

Just as economies swing in cycles, do publishing themes. Several ye ago, at the height of Japan's "b ble economy," a slew of books warne Japan's inexorable global expansi Now that the bubble has burst, Chri pher Wood offers one of the first what will probably be a flood of to predicting doom and gloom for Jap That country's impending "full-sc crash," Wood writes, ". . . now threat the stability of Japan's post-1945 polit order" and "could sink the world int 1930s-style deflationary depression."

Wood, *The Economist*'s Tokyo fin cial editor, has consistently been ah in predicting the pain the wanton l 1980s would inflict. Focusing here banks' indiscriminate lending to real tate speculators and the unwarrran runup in stock prices, he marshals pressive numbers, cases, and argume to depict Japan's profligate plight.

Wood may well be right that wors yet to come. But he won't convince m knowledgeable readers that Japan style capitalism and politics are hea for history's junk heap. He asks read to take most of his forebodings faith—mainly faith in neoclassical f trade economics. Now that Japan internationalized its once-isolated ec

ne reasons, market forces will final-
ve their way with it. Indeed, the
dable documentation notwithstand-
this book often reads like a tract.
e who disagree with him, Wood
ests, are either "quislings or bash-
He flippantly distorts the impor-
"revisionist" analysis of Japan,
holds that Japan operates by dif-
t rules, and states that Japan will
converge with the West. Having
tedly defied its obituary writers,
deserves more benefit of the
than Wood is willing to grant.

BY ROBERT NEFF

ERNAUT
lip Glouchevitch
& Schuster • 239pp • $21

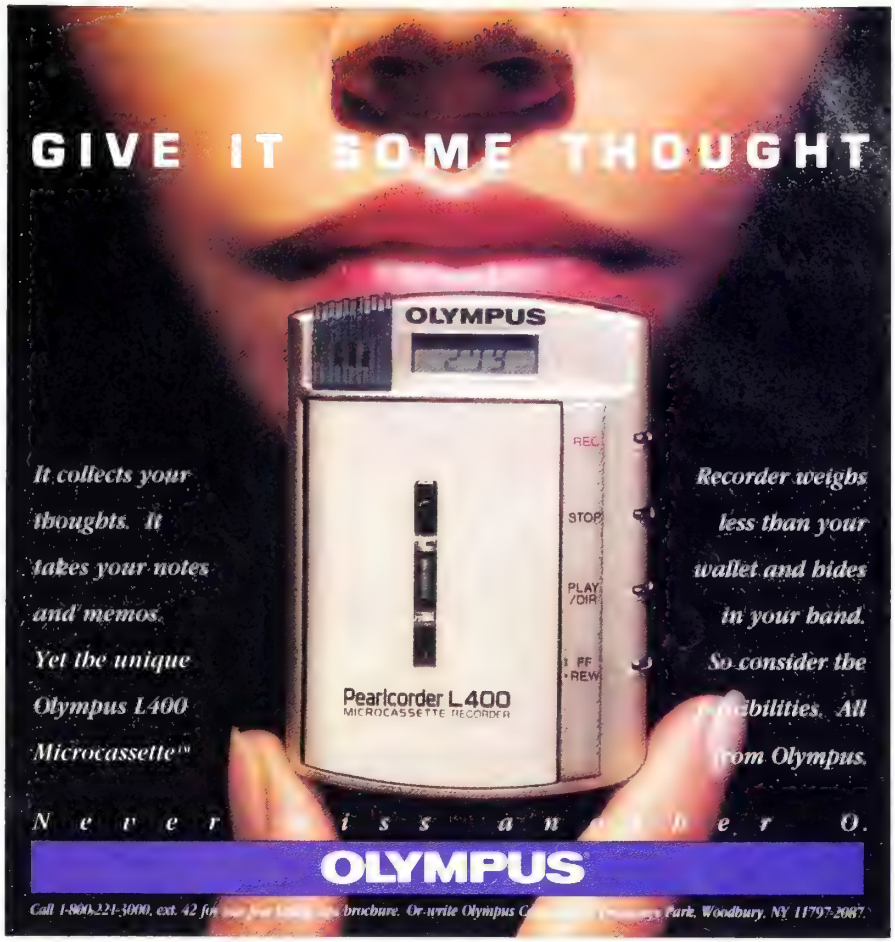
LLS BLITZ

resident-elect Bill Clinton and his Labor Secretary appointee, Robert B. Reich, are deeply interested corporate apprenticeship program e U. S. inspired by the widely lauderman model. That alone makes Glouchevitch's *Juggernaut* as l as tomorrow's news and a must nyone who wants to know why the an program has won such acclaim. hough saddled with a title presum- designed to evoke memories of *rieg* tank warfare, *Juggernaut*, led *The German Way of Business: It Is Transforming Europe—and Vorld*, is in fact a comprehensive iption of the basic characteristics of an industry, emphasizing how Gerand U. S. practices differ.

the U. S., apprenticeships are rare: amount to no more than summer jobs for a small number of college ents. In Germany, more than 00 companies offer apprenticeships idents from the age of 15. The apices spend three to four days a learning skills and an additional nd-a-half at a state-run vocational l. Glouchevitch reports that the an chemical giant Hoechst employs than 6,000 apprentices at its 32 s, at a cost of 25,000 marks apiece ear. That's $16,000—about a year's n at a good U. S. college.

ter the Industrial Revolution ght the end of the 500-year-old guild m, German industry took on the s' job-training role to maintain the y of skilled labor. While Glouche- also offers useful discussions of *Mittelstand*—the small and midsize anies that are the economy's back- —and the widespread sense of reibility for employees' social wel- the chapter on apprenticeships is worth the price of the book.

BY JOHN E. PLUENNEKE



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CHANGE AT THE WHITE HOUSE? *PLUS CA CHANGE . . .*

BY GARY S. BECKER

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

Will Bill Clinton's victory over George Bush make a difference in what the federal government does? Not much, suggests evidence from the past.

In democracies, when power shifts between political parties, there is scarcely a ripple in public policy. The actions of Harold Macmillan, Edward Heath, and most other Tory leaders after World War II are difficult to distinguish from those of Clement Attlee, Harold Wilson, and other British Labor leaders. The lone—admittedly huge—exception, Margaret Thatcher, had to stage a coup within her own party.

The same could be said of Democratic and Republican Administrations in the U. S. during the past 50 years. Richard Nixon professed to support free markets, but he was the first President to impose wage-and-price controls during peacetime, and he presided over one of the most rapid expansions of business regulation by the federal government. Ronald Reagan is rightly credited with encouraging deregulation and the buildup of the military, but both movements began under Jimmy Cart

There is no more apt illustration of t thesis than the Bush Presidency. During term, labor, market, and environmental re lation expanded remarkably rapidly, as federal spending. I doubt if these trends wo have been much different had Michael Duka won in '88. While Bush vetoed 33 bills pas by Congress, the Democrats, who control Congress, counted on many of his vetoes bail them out of grandstanding tactics.

CENTRIST PULL. This Tweedledum-and-Tweed dee stability of policies should not be lame ed, however, because the political syst would be chaotic if government spending a taxing radically changed every time a n group took over, and the consequences for onomic and social decision-making would catastrophic. Companies would be unable plan their investment and employment de sions if tariffs, pollution-control requiremen and other regulations were drastically alte with each new Administration.

WHO'S BEEN RATED MOST PROFESSIONAL FIVE YEARS IN A ROW?

© 1992 The Equitable Companies Incorporated NY, NY 10019 Source: The American College

stable political system, with its slow s in voting patterns, is the direct result of lity in the distribution of power among competing special-interest groups. Pres- s on Bush to maintain generous Social rity and medicare expenditures, contin- elfare and food-stamp programs, support ultural prices, and cut competition from nese cars have been every bit as strong ey would have been under a Democrat.

CEPTIONAL. Clinton wisely recognized that rican voters did not want the sizable ex- on of the federal government advocated e interventionist wing of the Democratic . His economic appointments so far are rates, with the glaring exception of the head of the Council of Economic Advisers. ugh big spenders have been chosen to the agencies in charge of transfer pay- s and social services, I suspect the liber- ing of his party will be unhappy with of what Clinton does. Similarly, Bush eciated that there was no groundswell of ort for the large rollback of programs ad- ed by free-market Republicans.

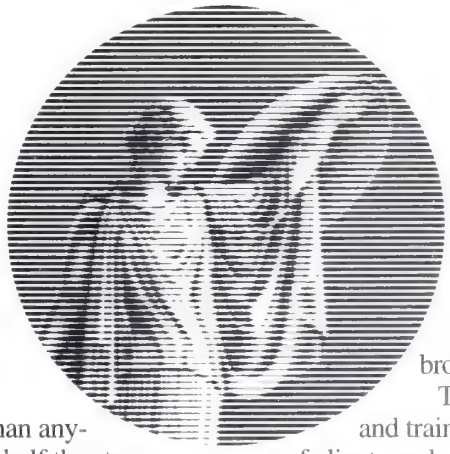
th planted their feet firmly in the political le, differing mainly in details. So it would rprising if the election's outcome makes a ifference, especially in the domestic pro- s that dominated the campaign.

storians discuss these issues on a grander when considering the role of great indi- ls. Of course, exceptional figures—such as Franklin Roosevelt, Reagan, Thatcher, and Mikhail Gorbachev—matter a great deal. They capture and promote major shifts in popular opinion and the configuration of political forces, though in part, they simply speed up changes that are inevitable. However, most of the time, it is not the individuals in office who determine what happens but the underlying economic and social forces—the political "fundamentals," as stock market jargon has it. With the greatest of respect for their considerable talents, neither George Bush nor Bill Clinton is in the truly exceptional class.

This doesn't mean that people who identify with particular political parties are misguided. The party in power does make some difference. Clinton will be more disposed than Bush has been to federal spending on roads and other infrastructure, to environmental claims about the greenhouse effect, to subsidizing industrial product development, to protectionist trade restrictions, to easier access to abortion, and to judges who are less enamored of free markets. But the differences won't be easily detected from statistical trends in federal policies.

Such skepticism about the impact of a Bush, Clinton, or Perot won't sit well with those who devoted time, effort, and emotion to their favorite candidate. But the stability of Western democracies is far preferable to a system in which the enthusiasms of campaign workers and contributors radically alters public policy.

Power shifts between political parties cause scarcely a ripple in public policies. But this Tweedledum-and-Tweedledee stability shouldn't be lamented, because democracies would be chaotic without it



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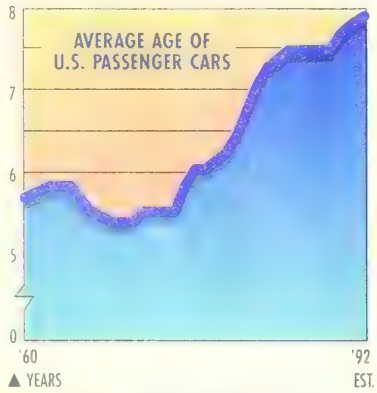
BY GENE KORETZ

SO MANY CLUNKERS ON THE ROAD MAY SPARK A SURGE IN CAR SALES

After another miserable year of selling only 13 million domestic and imported cars and trucks, the Automobile Dealers' Assn. is projecting total motor vehicle sales of only 13.5 million in 1993, and the major car manufacturers aren't much more optimistic. But economists at Citibank expect sales to approach 14.5 million and to cruise past 15 million in 1994. "The dam on auto and truck sales," they predict, "will start to break."

Fueling this upswing, say the analysts, will be the interaction of two factors: the quickening recovery and years of pent-up demand. In the wake of the recessions in the early 1970s and 1980s, they note, both auto and truck demand

JUST HOW OLD CAN THE U.S. CAR FLEET GET?



DATA: MOTOR VEHICLE MANUFACTURERS ASSN., BW EST

surged, with passenger car sales jumping by 2.5 million units within two years and eventually climbing to 11 million. But this time around, passenger car sales have gone nowhere even though light-truck sales have recovered their peak rates of the 1980s.

Meanwhile, the nation's car fleet has been aging. Since the mid-1970s, a combination of slow income growth, soaring car prices, and improved durability have induced owners to hang on to their cars longer. But the recent rise in the average vehicle's age to 7.9 years for cars and 8.1 years for light trucks in 1991 (and almost certainly 8 years for cars in 1992) suggests that pent-up demand and basic replacement needs are approaching a critical mass—particularly since 20% of the cars on the road are more than 12 years old.

Indeed, purchasing conditions appear increasingly favorable. Interest rates on auto loans have dropped three-and-a-half percentage points since early 1991. And Detroit's Comerica Bank reports that the amount of family income needed to purchase a new car declined to 29.7 weeks in the third quarter, the most favorable affordability level in more than five years.

THE NEXT PERIL FOR THE PAULINES OF BANKING?

Despite recurrent predictions of disaster, the nation's commercial banking industry seems to be surviving surprisingly well. But it's hardly out of the woods yet. One growing threat, claims a new study to be published by the Economic Policy Institute, arises from the extensive credit lines provided by the banks to a group of their largest competitors: major finance companies.

The study's authors, Tom Schlesinger of the Southern Finance Project and former House Banking Committee economist Jane D'Arista, note that several large finance companies have suffered severe setbacks in recent years. And more than 90% of the commercial paper issued by the 15 largest finance companies is backed by bank credit lines.

Ironically, the finance companies are among the banks' biggest rivals. In the 1980s, such major finance companies as General Motors Acceptance Corp. and General Electric Capital Corp. began luring away the banking industry's prime business borrowers. (At last count in mid-1992, finance companies had $294 billion in outstanding loans to business — only a third less than the banks themselves.) In this hotly competitive environment, many banks turned to the lower-quality loans that later imperiled their survival. The banks also garnered fee income from their rivals by providing backup credit guarantees for the commercial paper that the finance companies were issuing to fund their loans.

As Schlesinger and D'Arista tell the tale, the bank credit lines made it easier for finance companies to sell commercial paper to such institutions as money-market mutual funds. And the huge inflow of money from such sales inspired some to expand their lending to riskier areas, such as leveraged buyouts and commercial real estate.

Now, some of these risks are moving on to bank balance sheets. In the past year or so, several finance companies—GMAC, Chrysler Financial, and Westinghouse Credit—suffered credit downgradings, thus restricting their access to the commercial paper market and forc some to increase their bank borrow Westinghouse, for example, is draw on a $6 billion line of credit issued some 49 banks.

All this leaves the banks in a no situation. If the finance companies p per, say Schlesinger and D'Arista, t will lure away more of the banks' b rowers. If they run into more trou they will saddle the banks with e more risky assets. And "standing beh the banks," they add, "is the lender last resort, the Federal Reserve, a ultimately the U. S. taxpayer."

RAISING THE BEER TAX CAN SOBER UP THE STUDENT BODY

Drinking can be dangerous to young person's educational achie ment, report Philip J. Cook and Mich J. Moore of Duke University. In a rec study, they found that students w drink alcohol heavily in high school less likely than their peers to earn college degree.

Since heavy drinking and low edu tional aspirations often go togeth these results are hardly surprising. the two economists also looked at the fects of state beer taxes on educatio achievement. They found that youths similar backgrounds, abilities, and oth factors known to influence college perf mance were significantly more likely graduate from college if they came fr states with high beer taxes.

"States that have established str gent alcohol control policies," they c clude, "have thereby contributed to t educational success of their students."

THINGS START TO LOOK UP FOR NEW COLLEGE GRADS

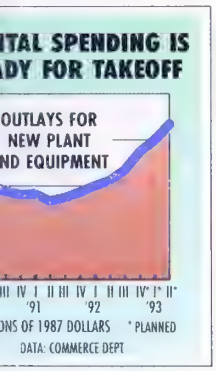
One group whose job prospects a clearly improving is new colle graduates. According to a recent su vey of 316 members of the College Plac ment Council, employers plan to hi 7.7% more graduates in 1993 than 1992—a year that showed no increase hiring at all. By industry sectors, serv es expect to boost hiring by 12.5%, co pared with a 5.4% increase projected manufacturers. Although average sta ing salaries for graduates with bach lor's degrees will be up only about 3 or no faster than inflation, graduat with master's degrees in business c look forward to a healthy 6.1% increas

ARY 11, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

HIS RECOVERY WILL BE BORNE N THE BROAD SHOULDERS OF BUSINESS

the hallmark of the 1980s was consumption, the 990s are shaping up as the decade of investment. The Clinton Administration seems committed to that vision, business even has a head start. Already, massive orate restructuring—with an emphasis on higher pro- vity and lower costs—has brought about what looks the start of a capital-spending boom.



Since the recession's end, now officially designated as March, 1991, investment has been a driving force behind what growth the economy has been able to manage. The main thrust is coming from outlays for new equipment. Investment in new construction continues to languish, as the glut of offices and other commercial buildings dwindles grudgingly.

nce the first quarter of 1991, spending on new equip- has accounted for 25% of the growth in real gross estic product—even though equipment spending is 8% of GDP. Given the efforts by business to improve uctivity and cut labor costs, it's not surprising that in- ment in computers and other information processing pment makes up the lion's share of that contribu- The cost, though, is slow job growth.

e motivation for this substitution of capital for labor s clear: With interest rates the lowest in decades and the cost of employee benefits still rising rapidly, al looks increasingly cheap relative to labor. That's icularly true as prices of computers and other high- gear continue to fall.

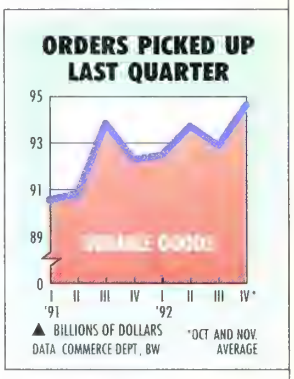
CTORIES RESEE G JUMPS OUTLAYS

Looking ahead, the capital budgets of corporations are especially aggressive through the first half of 1993 (chart). That's the reading from the Commerce t.'s latest survey of capital-spending plans. The re- ses date from October and November and offer the glimpse of anticipated outlays in the new year.

r all of 1993, businesses plan a 5.3% increase in ding for plant and equipment. But after figuring in an ected 2.1% drop in capital-goods prices, mainly re- ing the fall in computer prices, real outlays are slated se by 7.6%. That would follow an expected 5.4% ad- e for 1992. If realized, the 1993 increase would be the est in four years.

here is every reason to believe business will stick by its plans—if not beef them up. A retroactive investment tax credit, applied incrementally to new capital spending, and a tax break for capital gains targeted toward small or new enterprises are two incentives likely to emerge from the Clinton Administration.

Also, the rise in corporate profits that began in 1992 seems to have staying power, particularly as the economy keeps improving (page 56). Fourth-quarter GDP will likely show a healthy combination of strong consumer-led demand and declining inventories. Although lower inventories probably held back overall growth, last quarter's spending surge suggests that earnings were solid.



The biggest turnaround in 1993 capital spending, according to Commerce's survey, will be in manufacturing. After a 5.1% decline in outlays in both 1991 and 1992, factories now intend to lift spending on plant and equipment by 5.2%, before adjustment for inflation. Nondurable-goods industries, such as food processing, textiles, chemicals, and paper, lead the way, with planned increases ranging from 8% to 11% for next year.

The improving near-term outlook for manufacturing tends to justify those plans. Although orders for durable goods dipped by 1.9% in November, they had jumped 4.6% in October. The quarterly pattern of orders shows the recent uptrend (chart). Moreover, shipments of nondefense capital goods jumped 3.2% in November, a sign that capital spending remains on an upward path.

Some of the best news on capital spending lies outside manufacturing, though. Services, such as transportation, utilities, and retailing, plan a 5.4% increase in outlays in 1993, but that comes after an even stronger 8.2% advance in 1992. Services appear to be leading the charge in efforts to boost productivity.

EXPORT GAINS CAN'T STAY SO ROSY

The push from business investment is particularly well-timed for the economy. That's because spending elsewhere, especially by foreigners and U. S. consumers, isn't likely to maintain its recent robust pace. Recessions abroad are hurting U. S. exports. And while Christmas was a retail success, the urge to play Santa has left many consumers with empty wallets and low savings.

Exports weren't ailing in October, however. They jumped 3.4%, to a record high of $39.2 billion, while im-

Business Outlook

[illegible] Europe and in Japan will cut deeply into demand.

CONSUMERS SHOPPED. NOW THEY MAY DROP

[illegible] subdued growth in demand here at home. In particular, consumers will play a second [illegible] business investment. One reason: Uncertainties about job growth, plus the tax and credit-card bills from 1992, raise [illegible]

CONFIDENCE TAKES A HOLIDAY BOUNCE

[illegible] shopped till they dropped. Purchases of goods and services jumped 0.5%, or a sturdy 0.3% after adjusting for prices. Real outlays surged 0.6% in October. [illegible] December suggest a further gain last month as well.

A lift in consumer spirits accompanied the buying spree. The [illegible] 11-year [illegible]

[illegible] conditions, however, has [illegible] But their optimism over future job prospects rose sharply. [illegible]

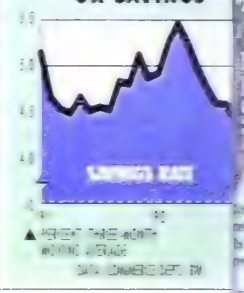
[illegible] helped shoppers give retailers the best Christmas sin[illegible] since 2[illegible]

In addition to holiday gifts, consumers also bou[illegible] items too big to put under the tree. Sales of exist[illegible] homes advanced 5.8% in November, to an annual rate [illegible] 3.85 million, the highest in nearly six years. Car buy[illegible] was also healthy, with sales at a 9.2 million pace in [illegible] middle of December. And sales of domestically made [illegible] trucks soared to a 5.3 million annual rate.

The problem for 1993 is that the splurge has not be[illegible] matched by a similar gain in incomes. Personal inco[illegible] rose just 0.2% in November, despite a strong 0.7% [illegible] rise in wages and salaries. After taxes and inflation, [illegible] disposable earnings fell 0.1% in November.

The growth in real aftertax income has lagged behind buying for two quarters now. In the third quarter alone, real spending is on track to rise between 4% and 5%, at an annual rate, while income is setting a 3% pace. Consumers are likely to rein in their buying until their incomes get back up.

HOUSEHOLDS SKIM[illegible] ON SAVINGS



Moreover, households are ignoring their nest eggs. Over the past three months, savings as a percentage of aftertax income has dipped to 4.4%, the lowest rate since 1[illegible] [illegible] Households will have to cut down on spending in order to replenish their savings next year.

The expected pullback by consumers means business will have to lend a hand to keep the recovery going. [illegible] decade of investment in machine tools, computers, [illegible] heavy equipment may not be as generous as the [illegible] sumption of the 1980s. But the increases in capital sp[illegible] research [illegible] and living standards will offer much more [illegible] the economy's long-term vitality that the borrow-a[illegible] spend extravaganza of the 1980s ever did.

THE WEEK AHEAD

NAPM SURVEY

[illegible]

CONSTRUCTION SPENDING

[illegible]

[illegible] and life in October.

EMPLOYMENT

[illegible]

CONSUMER CREDIT

[illegible]

There may be a card more plentiful than Visa, but its value is somewhat questionable.

220 Million Cardholders

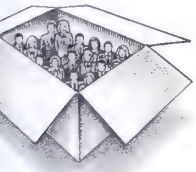
Of all the cards in all the wallets of all the men and women of America, there's one that towers over all the others. The Visa® card.

onsumers nk Visa e "best erall card."*

And mind you, this isn't npty braggadocio. It's pure, simple fact.

Consider the numbers. There are 144 mil-on Visa cards in circulation in the United tates alone. That's 51 million more than lasterCard.® 103 million more than Dis-over.® 119 million more than American xpress.® And 76 million fewer than Social ecurity (but who really cares about that?).

Incidentally, those Visa cards are doing lot more than just circulating. They're orking. Working hard. Working hard for consumers, working hard for business—in short, working hard for the economy.



sa delivers more customers an any other card.

Visa U.S.A. Inc. 1993

144 Million Cardholders

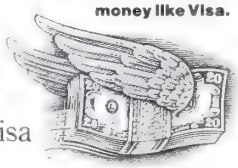
93 Million Cardholders

41 Million Cardholders

25 Million Cardholders

Worldwide, it has been estimated that approximately 600 Visa transactions take place every second. *Every second.* And as a result, something like $450 billion changed hands through Visa in 1992. Most of those dollars are playing their lovely melody on American cash registers; and they're bringing important goods and services into American homes.

No other card moves money like Visa.



What's the message in all these statistics? It's simple, actually, and quite compelling.

Visa is more than just the preeminent charge card. It's a vital force in the American economy, a tool that can help merchants attract more customers, realize more opportunities and make more money.

In other words, you can count on Visa. Which, in the end, is what social security is really all about.

VISA

*Source: Nilson Rosenberg 1992

JANUARY 11, 19

RED HOT, RED INK

CAN FORD AND ITS MARKETING MACHINE TURN POPULARITY INTO PROFITS?

High atop a Renaissance Center tower in downtown Detroit, behind a door marked "Taurus War Room," Ross H. Roberts is executing his battle strategy. As John Philip Sousa marches blare in the background, Roberts and other Ford Motor Co. managers hit the phones. They're exhorting Ford dealers to sell another Taurus or five before yearend. The objective: to defeat Honda Motor Co.'s Accord and make Taurus the best-selling car of 1992. With Taurus trailing Accord by fewer than 15,000 autos at the end of November, says Roberts, "we're within shooting distance."

Victory won't come cheap for either company. Both are offering fat incentives to lure buyers in the year's final weeks. What's at stake are bragging rights, mainly. The best-seller's crown gives a car advertising cachet, and dealers believe it helps them clinch sales. "This is all corporate machismo," says Ronald A. Glantz, an analyst at Dean Witter Reynolds Inc.

The race means more than that to Roberts, general manager of the Ford Div. He thinks beating Honda would fire up employees and burnish the nameplate's image. It would be the crowning achievement for the hottest full-line auto division—domestic or import—in America today. The division's car sales rose 11% in 1992, despite a flat market. Its light-truck sales shot up 16%, vs. the industry's pace of just 13%.

Ford is on a roll, all right. But keeping the momentum building will be tricky. That's where a Taurus victory would pay off. So, says Roberts, "we're doing every little marketing thing we can think of" to win. That includes an aggressive, $249 month, two-year lease deal that knoc up to $2,600 off the price of a we equipped Taurus, figures rival Gene Motors Corp. For those intent on owni their car, Ford is offering cash ince tives of up to $1,550. "Ford is buyi Taurus sales," says Glantz.

SITTING PRETTY. Ford can't keep it forever. Analyst Scott F. Merlis of Me gan Stanley & Co. estimates that ext incentives will cost Ford at least $50 m lion before taxes in the fourth quart That, plus a special charge for retir health-care benefits and for laying 10,000 employees from the ailing Eu pean operation, will bring the quarte loss to $976 million, Glantz predicts. A all that is on top of a $7.5 billion charg mainly for past health-care costs, th was applied to 1992's first quarter.

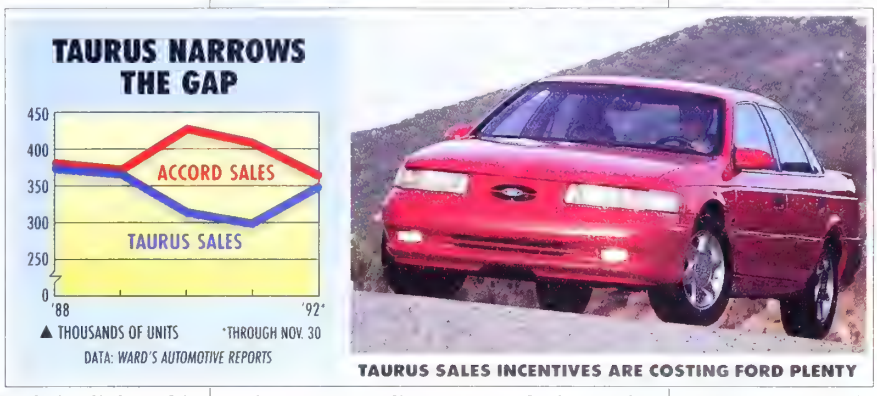
With a surge in demand, Ford cou move solidly into the black this ye however (page 63). The Big Three's lo cost producer, Ford breaks even with plants running at just 68% of capaci and anything above that increas profits dramatically, sa

A HOT PONY IN FORD'S STABLE

The Mustang Mach III concept car hints at what the new Mustang, due out next fall, will look like

ge Peterson, president of Auto-
c Group Inc., a Santa Ana (Calif.)
rch company. Now running at 91%
pacity, Ford is sitting pretty.
ile waiting for a sales rebound,
h, Ford is trying to grab market
from the Japanese—and troubled
ord executives deny targeting their
own rival, but "if they're going to
up [share]," says Roberts, "we
as well take it."
d's chief weapon is its product line.
ects to cop 5 of
op 10 spots on
roster of the
s best-selling
and trucks (ta-
Thanks to a
of well-made
les, aided by
marketing, the
Div. has cap-
20.1% of the
light-vehicle
et, up 1.7 points
92. Its parent
any also picked
points, to 24.7% of the light-vehi-
arket.

BEAUTIES. Ford is continuing to
on the gas with some new entries.
cut a year off its five-year devel-
nt cycle but needs to shave one
That will help it more quickly re-
aging models, such as the Mus-
which will be 14 years old when a
ersion comes out next fall. Roberts
the new Mustang will be "a knock-
ead car," and some outsiders
"It's just sex on wheels," says
Pacific's Peterson. Already selling
s a new, sporty Probe that came
mid-1992.
other model is ready, though, to
e the Taurus as Ford's flagship—
is why the competition with
a is so intense. Taurus has been gaining on Accord (chart), but Accord has held its lead throughout 1992. By December, Taurus, which outsold the Accord by about 5,000 cars in November, still needed a one-month sales increase of at least 30% to win. Ford, with 4,500 U. S. dealers to Honda's 1,000, has more strings to pull. With the pressure on, Bert Boeckmann, owner of Galpin Ford in Sepulveda, Calif., says he'll sell as many as 150 Tauruses in December, up 40 from November. Ford also is offering a $1,000-a-car discount to dealers who stock more Tauruses to use for rentals and service-department loaners.



TAURUS SALES INCENTIVES ARE COSTING FORD PLENTY

Ford's ultimate weapon is its ability to sell more cars to rental companies, something Honda rarely does. Many analysts and competitors think Ford has been pumping up fleet sales to put Taurus over the top, though Roberts contends that these days "we're selling fewer Tauruses to rental fleets."

In any case, Honda won't give up the No. 1 spot without a hard fight. "This is one of the most vicious, expensive wars I've ever seen," says Morgan Stanley's Merlis. Honda's weapon of choice: a $199-a-month, five-year lease on a stripped-down Accord. The company also offers a $500 dealer incentive and a "Spin to Win" contest that awards up to $500 to sales staff who sell Accords. Honda, which has held the title since 1989, gets 51% of its U. S. sales from the Accord. "It's more important for Honda to retain [the title] than for Ford to gain it," says Tom Dukes, director of competitive assessment at J. D. Power & Associates in Agoura Hills, Calif. "Honda's fortunes rise and fall on the Accord."

JUMPY. But Honda, suffering from weak sales in Japan, isn't out to win at any cost. Says a company official: "We're not going to jump into fleet sales all of a sudden or add customer incentives."

With so much at stake, both sides are feeling jumpy about the outcome. Ford and Honda will each have its results tabulated by Jan. 6, during the North American International Auto Show in Detroit. Neither side wants to reveal its numbers first, so Roberts' team proposed that both sides hand sealed envelopes to a neutral party. Unable to agree on an intermediary, though, the companies plan to make separate announcements.

While nobody wants to predict a winner yet, Roberts already has ready-to-air TV ads bragging about a victory. But the winning side won't have long to rest on its laurels—the field gets more crowded in 1993. Chrysler Corp.'s new LH cars and Toyota Motor Corp.'s Camry are coming on strong. And Honda has a redesigned Accord due out in the fall, followed by Chevy's new Lumina. Before too long, Roberts may have to crank up the Sousa for next year's fight.

By Kathleen Kerwin in Detroit, with Larry Armstrong in Los Angeles

P 10 SELLERS

s and e U.S.	Unit sales as of Nov. 30, 1992
-SERIES PICKUP	432,852
OLET C/K PICKUP	414,496
A ACCORD	359,146
AURUS	344,427
XPLORER 4X4	281,041
A CAMRY	259,193
RANGER PICKUP	230,119
SCORT	224,368
E CARAVAN	223,343
OLET LUMINA	200,544

TA: WARD'S AUTOMOTIVE REPORTS

FORD'S RANGER: A FAST CLIMBER

STRATEGIES

CEO NOORDA: HIS BIGGEST DEAL EVER

A NOVELL APPROACH FOR STRIKING AT MICROSOFT

Buying Unix for $350 million might be just what the doctor ordered

Raymond J. Noorda's pending acquisition of Unix Systems Laboratories Inc. is more than just his company's biggest deal ever. The Novell Inc. chairman's Dec. 21 move to purchase the American Telephone & Telegraph Co. unit for $350 million in newly issued stock also is aimed squarely at blocking Novell archrival Microsoft Corp. from thoroughly dominating the future of software. "There's a concern that it will be too hard for everyone else to compete," Noorda says.

Indeed, Noorda figures that the deal gives him a shot at gaining control of the next generation of desktop software—a market most of the industry thought Microsoft was a sure bet to lock up (chart). As personal computers increasingly are linked on corporate networks, consumers will need basic software that's far more sophisticated than Microsoft's Windows and MS-DOS operating system—the current PC standard.

To grab those buyers, Microsoft is working furiously on advanced software called Windows New Technology (NT), due out in April. Microsoft expects to sell 1 million copies in its first year, which could give the company even tighter control over software pricing and innovation and bring it a big advantage in selling its own applications programs.

Novell's deal doesn't worry Microsoft, says Executive Vice-President Steven Ballmer. The acquisition "has the potential to mess Novell up," Ballmer adds, noting that Novell now has to deal with different sets of incompatible software.

TINKER TOY. Noorda is betting on a software system with a rocky history. Created by AT&T in the late 1960s, Unix became popular among academics and scientists because it's powerful and can be adapted to many sorts of computers. But all that adaptation has spawned multiple versions of Unix, hampering sales in the commercial market, where compatibility counts. Some computer makers, meanwhile, have been reluctant to standardize on AT&T's version o program, fearing that it would AT&T a leg up in computers.

Those worries now are moot, Novell doesn't sell computers. Co standard Unix finally take off? chances have never been better," Willem P. Roelandts, a vice-preside Hewlett-Packard Co., one of the d of companies that pay royalties to Systems Labs for use of the prog Then again, workstation supplier Microsystems Inc., HP, and others continue to sell rival versions of Ur

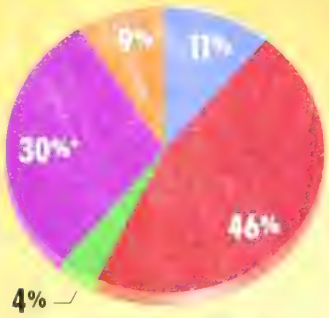
The real test will be whether N can successfully combine Unix wit popular NetWare software for lin computers. Thanks to NetWare, N has grown into the No. 2 supplier c software, behind Microsoft, with million in sales last year. In the fu features that allow co-workers to s information across far-flung netw will be among the most-valued elem of advanced operating systems. S Microsoft has decided to build such tures into Windows NT, Noorda says vell must find ways to meld Unix keting and development with NetW

GRANDDADDY. Noorda also clearly tends to trade on anti-Microsoft se ment as a way to galvanize support his version of Unix. The 69-year-old mer U.S. Navy pilot has become grandfatherly figure of the indus successfully forging alliances with key players as Borland, Lotus Deve ment, and WordPerfect. Since No forswears getting into the applicati business, software executives say t feel safer trading technical informa with Novell than with Microsoft.

Noorda may be fighting Microsoft other fronts. He is thought to have b a key source in the 2½-year probe the Federal Trade Commission into c plaints of Microsoft's hyperaggress tactics. And he acknowledges that so Novell executives may be building s port for a civil antitrust action agai Microsoft. The idea bring suit against crosoft for the practi being probed by FTC. "I can't say t someone else inside company hasn't conta ed outsiders for expl atory purposes," s Noorda. But the im diate battle seems to taking shape not in courtroom, but in marketplace.

By Evan I. Schwartz New York, with Robert Hof and Kathy Rebello San Francisco

HANDICAPPING SOFTWARE'S NEXT GENERATION



FORECASTED WORLDWIDE 1995 MARKET SHARE FOR ADVANCED DESKTOP OPERATING SYSTEMS

IBM'S OS/2 Nearly 2 million copies installed, but joint work with Apple clouds status as long-term player

MICROSOFT'S WINDOWS NT No installed base, but due out by midyear. Will benefit from momentum of Windows for MS-DOS

TALIGENT Software from IBM and Apple due around 1995. But plans could fall through

UNIX Various versions now control 25% of the world's computers. Novell hopes to popularize a single version for desktops

OTHER

*ALL VERSIONS

DATA: DATAQUEST INC BW

OM THE MALLS, DINGS OF COMFORT AND JOY

ue circumstances helped retailers post sharp gains

allelujah! For the first time in four years, retailers' prayers for a bountiful Christmas were an-ed. Many were able to report sharp ales increases that actually exceed-eir optimistic forecasts (table). "We ted Christmas to be good, but it's much stronger than we expected," Clark Hinkley, executive vice-presi-at Talbots Inc., the $630 n women's apparel. It reported increases of before adjustment for re-nflation of about 2%, at ores.

bots wasn't alone in hit-double-digit increases. retailers—among them, Penney, Bloomingdale's, ny & Co., and L. L. —claimed real sales of 8% or more. Al-h sales at Kmart Corp. y budged after adjust-for inflation, Sears, Roe-& Co. reported inflation-ted increases of some

FALL. As the Yuletide eu-a fades, though, retailers d wonder whether con-rs can keep up the pace, their sense of well-being fueled by circumstances aren't likely to recur. For thing, shoppers in the east whose homes were ged by Hurricane An-had extra cash to spare, s to insurance claims out prior to Christmas. r another, President reduced payroll with-ng taxes in 1992, so con-rs ended up with $25 bil-xtra to spend. "That was e way to jump-start the omy," says Carl Steidt-, chief economist at re-consultants Management Horizons. consumers will have to pay that y back when they file their income eturns in April. The 1992 calendar cooperated, serving up two extra g days between Thanksgiving and tmas, and landing Christmas on a y. That gave consumers all week-o shop post-Christmas sales.

sales do dry up, at least stores can comfort from the Christmas results. Shoppers weren't just buying the basic turtlenecks and black socks that they bought the past couple of years. "We saw more want- than need-based purchases this year," says Matt Howard, senior vice-president for marketing at Sears Merchandise Group, which reported increased demand for such high-ticket items as refrigerators, camcorders, furniture, and large-screen TVs.

SAKS' BRAVO: CASHMERE SWEATERS AND $2,000 PANTS SUITS FLEW

SANTA DELIVERED

	Estimated holiday sales gains (inflation-adjusted)		Estimated holiday sales gains (inflation-adjusted)
L.L. BEAN	23.0%	R.H. MACY	0.0
BLOOMINGDALE'S	8.0	J.C. PENNEY	9.0
BRONSON IMPORTS*	10.0	SAKS FIFTH AVENUE	8.0
BROOKS BROTHERS	9.5	SEARS M'DISE GROUP	5.5
GALERIES LAFAYETTE	13.0	TALBOTS	18.0
KMART	0.5	TIFFANY	12.0

DATA: COMPANY REPORTS, BW

*Christmas ornaments

Sears, the nation's third-largest retailer, did exceptionally well with its $1,000 Kenmore refrigerators and personal computers from IBM, Packard Bell, and Apple. Sears shoppers also splurged on home entertainment, buying up $599 to $999 camcorders from Sony, Panasonic, and Hitachi, as well as Sears' private-label LXI 27-inch TVs for $499.

Department stores also benefited from the growing tendency of consumers to stay at home, whether for work or play. Dayton Hudson Corp.'s big sellers included Apple's new Performa computers, which sold for $1,299 to $2,899. At Bloomingdale's, the most upscale division of Federated Department Stores Inc., sales of upholstered furniture, lamps, and rugs rose more than 30% this Christmas. "This is the first time in a decade I can recall furniture doing this well," says Jeffrey Sherman, president of Bloomingdale's.

JUNK FOOD. Consumers also evinced a renewed appetite for luxury apparel. The Chinese government, a major supplier of cashmere to the U. S., sharply lowered prices this year, says retail consultant Alan Millstein. When Saks Fifth Avenue reduced cashmere sweater prices by 25% to 40%, they sold out, reports Saks President Rose Marie Bravo. And a $2,000 price tag didn't deter shoppers from snapping up Saks's entire supply of Geoffrey Beene pants suits. "They're quite pricey," says Bravo, "but they're wool jersey and beautifully made."

Naturally, cheaper clothing moved, too. Dayton Hudson's biggest sellers included $30 women's silk shirts and $20 body suits. At J. C. Penney Co., $26 men's dress shirts, in white and colors, did extremely well, says Ray Pierce, president of Penney's men's division, as did $40 sweatshirts emblazoned with the logos of the Los Angeles Raiders and Dallas Cowboys.

Gourmet delicacies and junk food appeared under many Christmas trees. Shoppers snapped up $200 bread machines at Rich's, Federated's Atlanta-based division. At Mervyn's, a Dayton Hudson chain based in Oakland, Calif., shoppers pounced on $24.99 animal-shaped cookie jars that meow, moo, or bark when the lid is lifted. And Mr. Bulky Treats & Gifts, a 156-store candy chain based in Troy, Mich., sold thousands of pounds of candy canes, Hershey kisses, and peanut-butter cups.

Retailers' holiday smiles may yet vanish. The first half of 1993 is not expected to be a barn-burner, and who knows how long shoppers will feel optimistic? Still, this was the first Christmas in years when a major store wasn't about to file for Chapter 11. For merchants, that alone amounts to a minor miracle.

By Laura Zinn and Sunita Wadekar Bhargava in New York

LEGAL AFFAIRS

ZOE BAIRD JUST MIGHT TAKE CARE OF BUSINESS

Corporate America likes the new Attorney General's track record

Bill Clinton may or may not prove to be, as he has promised, a different kind of Democrat. But Zoë Baird almost certainly will be a different kind of Democratic U. S. Attorney General. In the past, Democratic chiefs of the Justice Dept. often have been labeled liberal business-bashers. But Baird, who has served since 1990 as general counsel of Aetna Life & Casualty Co., may suit business much better.

The 40-year-old Baird is expected to be more pragmatist than ideologue. Indeed, a lawyer close to the Clinton transition team says that her selection was a snub to liberal groups that had been rooting for Washington lawyer Brooksley E. Born—who would have been a standard-bearer of liberal causes. Baird, in contrast, "will be a moderate Attorney General with whom both parties would feel comfortable," says Victoria Toensing, a former Justice Dept. criminal-division deputy during the Reagan Administration.

If she doesn't alter the stands she espoused in her current posts, Baird may give surprising support to business in several key areas—ranging from easing tough corporate-sentencing guidelines to dealing with such vexing problems as product-liability litigation.

REFORMER. As the top lawyer at Hartford-based Aetna, Baird supported curbing excesses in civil litigation. She has backed changing the rules of discovery to limit costly pretrial maneuvering and favored making the tort laws more uniform (table).

Baird's resumé spans government, private practice, and the corporate world. A graduate of the University of California at Berkeley's Boalt School of Law, she worked in the Carter Justice Dept. and White House. She then joined the Washington office of Los Angeles-based O'Melveny & Myers, whose chairman is Warren Christopher, Clinton's transition co-chairman and nominee for Secretary of State. From there, Baird moved in 1986 to General Electric Co.'s legal department, where she drafted a program to help the company uncover and prevent fraud. The daughter of a union organizer and a jewelry designer, Baird grew up in Seattle. She is married to Paul D. Gewirtz, a constitutional law professor at Yale Law School, who is mentioned often as a possible judicial nominee of Clinton's. In off hours, Baird enjoys going to the theater.

Critics say that Baird, who has never been a prosecutor, will be at a disadvantage at Justice, which is filled with prosecutors. And she recently has focused little on constitutional and civil rights issues. But William T. Coleman, a Ford Administration Transportation Secretary, says Baird worked on key civil rights cases at O'Melveny & Myers and successfully defended both the firm's clients and GE from criminal charges.

But it is Baird's familiarity with business that heartens executives. "She has seen the other side of it," says Peter D. Zeughauser, general counsel for the Irvine Co., a California real estate com ny. Indeed, executives hope that Ba will make real inroads in reducing wa they see as unfair civil litigation.

Under state tort law, for instan companies sometimes must compens injured consumers, even if there was proof that their products caused the jury. In the past, Baird has suppo alternatives to the courts for paying tims—reforms mirroring ideas trump ed by Vice-President Dan Quayle. suppose she will understand that b ness is not the incarnation of evil," s Lawrence A. Salibra, senior counsel Cleveland-based Alcan Aluminum Co

DIFFERENT CLIENT. Business also wa backing in its drive to relax federal s tencing guidelines, which hold com nies responsible for employees' wro doing. Currently, a company can f stiff penalties for an employee's vi tions even if senior managers were aware of them. Corporate lawyers ar that they shouldn't be on the hook actions they know nothing about.

Of course, when Baird takes the h at Justice, she will be representing different client. Clinton, who recei hefty campaign contributions from American Trial Lawyers Assn., supp easy access to the courts and may Quayle-like civil-justice reforms t Baird has supported in the past. " will weigh things differently when sh representing the public," says Benjam R. Civiletti, a Carter Administration torney General. But this time aroun Democratic Attorney General may least put business' concerns on the sc

By Catherine Yang in Washing

BAIRD'S FAVORITE BUSINESS ISSUES

WHISTLE-BLOWING

At General Electric, Baird designed a program to detect and discipline wrongdoing. She may give brownie points to companies that run such programs, even while pursuing cases against them

CIVIL REFORM

Baird wants to curb excessive litigation. As Attorney General, she may work to limit pretrial discovery and adopt uniform rules for corporate liability

LEGAL FEES

To lower corporate legal costs, Baird favors replacing hourly billing with negotiated fees. She may want federal agencies to adopt similar tactics when hiring law firms

DATA: BW

Commentary/by Paul Magnusson

CLINTON'S TRADE TEAM IS NO DREAM TEAM

uring an official trip to India in 1991, U. S. Trade Representative Carla A. Hills visited the Mahal. As she stood marveling at tableau, a gaggle of tourists eeled and trained their cameras on a rtled Hills. No wonder. In many ntries, she's the Bush Administra-'s best-known Cabinet member. In-d, Hills has been burned in effigy in is, Seoul, and Tokyo—the ultimate ute to a U. S. trade warrior.

Not bad for the rseer of an agency h just 150 employ-. And the fact is, job of trade am-sador has become ical. The U. S. de deficit has ex-ded, foreign na-ns have erected re sophisticated riers to U. S. ex-ts, and high-tech-ogy rivals have n rich government sidies. The job of eling the playing d for the U. S. falls the trade rep.

YOFF. But Bill Clin-seems to have ssed the point. In-ad of seeking an perienced USTR or with the proven lity to steer bills ough Congress, he de the post a politi-payoff.

Clinton initially dan-d the USTR job fore Ronald H. own, chairman of Democratic Na-nal Committee. But Brown held out the broader turf of the Commerce pt. Then the slot was offered to Ari-na ex-Governor Bruce E. Babbitt, o went instead to the Interior Dept. ally, the USTR job was awarded to ckey Kantor, the Los Angeles attor-y who was Clinton's campaign man-er. Relevant trade experience? Zip. That could haunt the new Adminis-tion. After Jan. 20, a number of cru-l trade deadlines loom (table). The rth American Free Trade Agree-nt, signed by President Bush on c. 17, now must be drafted into law. re than a dozen committees will hold hearings on the huge package, and Kantor will have to perform as principal witness. He also faces a Mar. 2 deadline for the six-year, 108-nation trade talks known as the Uruguay Round. Both pacts require skillful shepherding on Capitol Hill, and Kantor wasn't known for persuasive diplomacy in the Presidential campaign.

It's possible Clinton's pol-heavy trade team will turn out to be masterful. Maybe Kantor and Brown, like Hills, will grow into their jobs. Hills was an antitrust and housing expert when she took the post in 1989. But she handled it with aplomb, negotiating free-trade pacts with Canada and Mexico, and cracking open markets in Japan, Korea, and Europe.

Kantor will have to be an even quicker study. Supporters insist that he is. "Mickey is smart, tough as nails, and a good negotiator," says Michael S. Berman, a Clinton adviser. Indeed, some Kantor defenders are struggling to make his inexperience a plus. Says Democratic consultant Anthony Podesta: "The fact that Mickey hasn't been a Washington trade lobbyist is an asset, not a liability."

If that's true, then Commerce Secretary-designate Brown carries some heavy liabilities. As a superlobbyist for Washington's Patton, Boggs & Blow, Brown represented many foreign companies, including most of the Japanese electronics industry. Even that doesn't make him a trade expert, as Brown readily admits. Recently, he confided to friends: "I've been coasting—now I've really got to learn some stuff." Indeed, Carleton College political economist Steven Schier asks, if Clinton is serious about promises to make Commerce an export-promotion powerhouse, "why would he pick a hack like Brown?"

Clinton's team does not lack for trade thinkers. Yet they are not at the conventional places: Lloyd Bentsen at Treasury, Laura D'Andrea Tyson at the Council of Economic Advisers, and Robert B. Reich at the Labor Dept. all have been active in the field. "They'll generate the ideas," says one Clinton aide. "Ron and Mickey will be the supersalesmen."

MODERATOR. Clinton seems confident that he can make this setup work. Under his tribal, chautauqua-like approach to government, Clinton moderates among rival interests, then makes the final decisions himself. The method puts a huge burden on Clinton, but it may work better than George Bush's stifling teamwork approach.

But time is short. Clinton wants to administer some long-term medicine to the U. S. economy, and neither Kantor nor Brown has his license to practice yet. With so many crucial trade deadlines looming, the Clinton team can't afford much on-the-job training.

Magnusson covers trade and economic policy for BW in Washington.

BROWN (LEFT) AND KANTOR: ARE THEY TOO INEXPERIENCED?

CHALLENGES ON THE TRADE FRONT

NAFTA The North American Free Trade Agreement was signed by President Bush on Dec. 17, but legislation implementing the deal must still be drafted, and sold to some reluctant legislators. President-elect Clinton has promised to negotiate new side agreements on labor rights and the environment

GATT The Uruguay Round, a massive, six-year attempt to solve trade disputes among 108 nations is fast approaching a March deadline

CHINA Clinton vows to be tougher with China by threatening to withhold most-favored-nation trading status unless it improves its human rights record

JAPAN Japanese hardliners are urging a go-slow approach to trade liberalization. Barriers to imports keep Japan's trade surplus at record levels

DATA BW

FOREIGN INVESTMENT

HO, HO, HO CHI MINH, CORPORATE AMERICA RUSHES IN

Vietnam is awash with capitalist pitchmen hoping Bush will lift the ban

THE INFRASTRUCTURE IS IN A SHAMBLES, BUT THERE'S OIL OFFSHORE

Teeming Ho Chi Minh City, with its crumbling colonial facades and hordes of mopeds, isn't a natural setting for a bunch of slick capitalist pitchmen to do lunch. But that didn't stop ad shop Backer Spielvogel Bates Worldwide Inc. from flying its Pacific Rim managers to Vietnam for a strategic retreat last month. Says Chairman and Chief Executive Carl Spielvogel: "I thought it would be a good way to open people's minds about what's going to be a great consumer market one day."

Just how far off that day will be for U. S. companies will be determined during the final weeks of the Bush Presidency. Corporate lobbyists are agitating to get President Bush to lift a 17-year-old trade and investment embargo against Vietnam before he leaves office on Jan. 20. They fear the incoming Clinton Administration won't move on the embargo until well into 1993. Meanwhile, Asian rivals are rushing into Vietnam, where roughly $3 billion worth of deals have been struck during the past 18 months. "American companies are already at a great disadvantage," says Irwin Robinson, president of the newly established Vietnam-American Chamber of Commerce, based in New York City.

Robinson and other Vietnam business boosters, however, have reason to believe that U. S. companies will soon crack this emerging market of nearly 70 million consumers. On Jan. 5, the Senate Select Committee on POW-MIA Affairs will release a 600-page study that credits Hanoi with helping investigate the fate of 2,260 missing American soldiers. The kind words from Congress, plus the repatriation of more remains by Hanoi, could provide the political cover Bush needs to move. Says one committee source: "Vietnam has committed to a awful lot."

If Washington lifts the embargo, Vietnam would gain access to billions in investment from U. S. companies—loans from the World Bank and International Monetary Fund. Hanoi desperately needs the money. Twenty years socialism has left Vietnam's econ and infrastructure in a shambles. country now has embarked on an "o door policy," says Nguyen Manh Th commercial attaché at the Vietnam Embassy in Tokyo.

And Corporate Asia is walking r in. Since Vietnam started opening economy in 1988, trade with South rea has more than tripled, to $334 lion, through the first nine month 1992. And Japan is busily expanding presence. Three days after the U. S. tion, Tokyo announced it was resu economic relations with Hanoi. To things off, Japan has come up wi $375 million loan package.

OIL SCOUTS. U. S. businesses aren't ting still. On Feb. 5, a group of 50 executives will depart on a trade mis to Hanoi. The Vietnamese covet technical savvy and financial clou such U. S. multinationals as An Corp. and Mobil Corp. Both are scou potential drilling sites in the South C Sea. And American Telephone & T graph Co. and Motorola Inc. wan help modernize the country's tele munications system.

The most maddening aspect of the bargo to some U. S. executives is Vietnam officials want U. S. supplie serve as a counterweight to Asian panies. "Virtually to a person, the anxious to get Americans in there," Steven A. Senderling, a regional dire at Motorola Asia Pacific Ltd.

None of this has been lost on Bu foreign policy team. But POW group gue that Bush would be crazy to giv any leverage until every missing sol is accounted for. "They haven't ne gone far enough," says Ann Mills fiths, executive director of the Nati League of Families, a MIA lobby.

Such protests might halt the momentum to normalization. The po ful economic forces dri these two erstwhile mies together suggest the day when U. S. ex tives begin cutting d all over Ho Chi Minh is at hand.

By Brian Bremner Washington, with J Barnathan in Hong K and Larry Holyoke in T

WAITING TO INVADE VIETNAM

AT&T Won special approval to reestablish direct phone links between the U.S. and Vietnam. Wants to upgrade nation's telecom system

AMOCO, CHEVRON, MOBIL Want a shot at exploring Vietnam's potential oil reserves in the South China Sea

UNITED, DELTA, NORTHWEST Looking into adding steps to their existing Asia routes to include Vietnam

COCA-COLA, P&G With their products already on the black market, they're studying how to reach Vietnam's 70 million consumers

CATERPILLAR, FLUOR DANIEL Set to provide construction equipment and engineering knowhow to upgrade Vietnam's infrastructure

DATA BW

The competition's new laser printers were inspired by a distinguished history.

Ours.

The IBM LaserPrinter 10, $1899.

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IBM LASERPRINTERS. PAGES AHEAD.

GOVERNMENT

WILSON AND A CRACK BABY: HE CAMPAIGNED ON PLEDGES OF MORE MONEY FOR PRENATAL CARE

CALIFORNIA HAS A HARD LESSON FOR CLINTON

The best-laid plans for cutting a deficit can fail—just ask Pete Wilson

His economic summit was a smash. His Cabinet choices have been popular. Even his sober remarks about cutting the federal budget deficit are winning praise. But as President-elect Bill Clinton packs his bags for Washington, he may want to look over his shoulder toward California. There, another first-term chief executive, Republican Pete Wilson, has learned just how obstinate a runaway deficit can be.

Like Clinton, Wilson came into office confronting the twin evils of a sluggish economy and an uncontrollable budget deficit. And on both fronts, Wilson continues to lose ground. On Jan. 8, barely four months after closing a $14.3 billion gap, Wilson is expected to tell battle-weary state legislators that they'll have to contend with at least $7.5 billion more in red ink for next year. And Wilson wants them to balance the budget without new tax hikes. "Given the economic climate, we can't afford to lose more jobs," Wilson told reporters. "Therefore, we can't afford tax increases."

RISKY ROAD. Sound familiar? Fearful of stilling the rustlings of a national economic recovery, Clinton has said that, despite the huge deficit, he won't propose hiking the corporate tax rate to match the 36% rate he wants to charge the nation's wealthy. Meanwhile, his advisers now think he can raise just half the $45 billion he had hoped to add over four years with taxes on foreign companies with U. S. operations.

That puts Clinton, like Wilson in California, on the politically dangerous path of slashing spending for programs that have settled into senior sacrosanct status in both Washington and Sacramento. Clinton, for instance, is said to be eyeing cuts to Social Security, either by extending retirement ages or with added taxes on wealthy recipients. That's likely to be as successful as Wilson's effort to tap the powerful California state employees' pension fund. Wilson trashed the idea.

The governor hasn't had much help in making the hard cuts from California's legislature. After campaigning on promises that he would add funds to state programs for prenatal care, for instance, he pushed to slash welfare payments to mothers. The proposal was ignored by the Democratic-controlled state assembly. Even state Republicans eventually turned on Wilson, rebelling when he finally agreed to raise $7.2 billion in new taxes last year.

The Democratic love-in that awaits Clinton puts him ahead of Wilson. Even so, Clinton has to be careful not to offend powerful public interest groups. One likely flash point: a potential plan to set a ceiling on the amount of tax-free health-care coverage employers can provide to workers. That will raise about $48 billion over four years but also may irk many businesses.

Even if Clinton walks the political tightrope better than Wilson, he faces some daunting arithmetic. After years of whittling spending programs, state and federal budgets now have little room to make substantial cuts without inciting major political fights. That means Clinton may find himself resorting to budgetary sleight of hand. Wilson is familiar with such tricks: The governor and Democratic legislators resolved a two-month-long budgetary stalemate this summer by making a $973 million "loan" to the state school system and a $580 million deferral of tax refunds owed to defense contractors.

To cut further, Wilson will have to go into programs for schools and prisons where funds are allocated by law (chart). Clinton, too, confronts huge uncuttables: $917 billion of the $1.5 trillion fiscal 1993 budget goes to interest payments and such mandatory spending programs as Social Security and medicare.

TURNABOUTS. Clinton may be hoping that his budget gets a boost from a recovering national economy. Nevertheless, revenue slowdowns, combined with higher entitlement payments and the more-expensive-than-anticipated savings and loan bailout are pushing up deficit projections. Wilson is facing a similar turnabout from the forecasters: California has lost 120,000 more jobs than state number-crunchers predicted just nine months ago. That will cost the state $2 billion in tax revenues and add billions in welfare and medical payments.

Wilson tried unsuccessfully to go around his Sacramento roadblocks by taking his case to the public. But voters rejected his ballot initiative to slash welfare payments by 25%—which would have saved $1.4 billion annually. In February, Wilson and Democratic legislators are planning to mimic Clinton's economic summit with one of their own. Given the Golden State's record, though, Clinton isn't likely to return the favor by taking accounting lessons from Sacramento.

By Ronald Grover in Los Angeles, with Susan B. Garland in Washington

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THE IBM COLOR JETPRINTER PS: COLOR MADE BRILLIANTLY CLEAR.

CONSUMER ELECTRONICS

SO YOU THOUGHT YOU HAD EVERYTHING

The electronics industry unveils a raft of tempting high-tech toys

It's happening again: Just when you finally replaced all your vinyl LPs with shimmering, silver compact disks, consumer-electronics makers want you to start replacing your cassettes, too, with higher-fi digital tapes. And it's time to put old snapshots onto Photo CDs and show them on a TV screen. Books? Buy your next encyclopedia on CD-ROM, adding sound and motion-picture clips to the boring old text. And remember that 16-bit video-game machine you got the kids a year ag, because they were tired of the 8-bit one? Now, you can attach a CD for movie-like realism—for a mere $300.

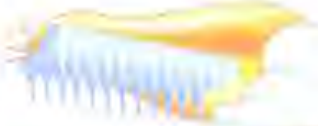
Driving this onrush of new products is the $140 billion consumer-electronics industry's need to reinvent itself. With a stagnant global economy and cutthroat competition, profits are way off: down 60% at Sony Corp. and 79% at Matsushita Electric Industrial Co. in the fiscal first half, and down 80% at Philips in the nine months ended Sept. 30. Says Matsushita Director Masahiko Hirata: "The industry desperately needs a new hit."

That hit product, whenever it comes, almost certainly will run on ones and zeros: The digital language of computers, which appeared a decade ago in compact-disk players, is showing up in everything from new music machines to the coming high-definition televisions. Digitizing the "analog" wave forms of sound and pictures into ones and zeros makes possible all kinds of manipulations, from blending text and video to drastically compressing signals (diagrams). Some of the new digital gear made it to market in time for the holidays. Even more items will appear at the industry's giant Consumer Electronics Show in Las Vegas in early January.

PSYCHOACOUSTICS

Companies are streamlining sound recordings in ways that people won't notice. For example, quiet, high-frequency signals that people can't hear can be left out so more music can fit on a disk or tape

For a glimpse at what product developers have in mind, consider the latest spin-off from defense research: It's a $2,500 box, due out this spring, that digitally corrects for the distortions and blind spots created by reflections of music from the floor, walls, and ceilings. The technology, which grew out of work on "stealth" radar-evasion systems, is from MusicSoft Inc., a joint venture of two high-end American audio companies: speaker maker Snell Acoustics Inc. and hardware manufacturer Audio Alchemy Inc. The system, which will be introduced by Snell as the CQ-10, generates sound waves that are timed precisely to cancel unwanted echoes. In the early version, buyers will have to pay a sound technician to install correction software, which is customized for the room where the speakers are.



DIGITAL SIGNAL PROCESSING

DSP chips, the new workhorses of consumer electronics, are programmable and process up to 30 million instructions per second. They can fly through complex manipulations needed for psychoacoustics and video compression

The long-term vision is to make the musical output from a CD or digital cassette as easy to manipulate as a document in a word-processing program, with software available for every specialized purpose. Want surround-sound? It might come as a $35 cartridge that would plug into a general-purpose digital signal processor for audio.

Sales of such devices won't add up to much for several years. For immediate profits, consumer-electronics companies are putting more faith in compact disks, which aren't just for music anymore. Two hopefuls are Philips' Compact Disc-Interactive, or CD-I, and Tandy Corp.'s Video Information System. Both are $700 machines that show pictures and limited video clips. Program develo have come up with about 100 interac video titles, such as enhanced bo educational programs, and video ga

Eastman Kodak Co., meanwhile, pushing Photo CD. For $20 or $25, p buffs can get rolls of snapshots digiti and scanned onto a CD. Then, with dak's $450 player, they can show t on the TV screen, using a remote con to enlarge images, crop them, or reo them into a slide show.

VIDEO COMPRESSION

Video has to be compressed more than a hundredfold to fit onto CDs. One way is to save only the parts that change from one frame to the next. The first use: interactive compact disks

CDs are catching on in the video-ga world, too. Two months ago, Japan maker Sega Enterprises Ltd. introdu a $300 CD accessory for its $99 Gen game player to give games a more m ie-like realism. "Adults haven't rela to video games, which by and large agility games," says Douglas E. G group marketing director at Sega America Inc. "They'll be drawn in by movie aspect." Sega sold 100,000 co of its CD player in the first month al more than the combined sales to dat all other consumer CD-ROM players. N tendo Co. will follow with a similar tion later this year, and the advent CD-ROM technology is luring new trants to video games. These incl Sony and startup 3DO Co., which

MAGNETO-OPTICS

Magneto-optical devices such as Sony's new MiniDisc have one big edge over conventional compact disks: You can record on them. A laser heats a spot on the disk, while a magnetic head underneath records

scheduled to introduce on Jan. 7 an usually sophisticated game machine geted to adult players (box, page 38)

The new CD-ROM formats have a going for them: CDs are familiar

"If Lexmark is an indicator of the kind of innovation we can expect from an IBM spin-off, OS/2 users have much to look forward to...."

OS/2 Professional Magazine,
November 1992

"The LaserPrinter 10 is appropriately named. It is close to a perfect 10...."

Computer Reseller News,
February 3, 1992

"Lexmark offers the best combination of price and performance for printers used for desktop publishing."

Windows Magazine,
February 1992

"With the IBM LaserPrinter 6, Lexmark proudly comes into its own on the laser printer turf by paying special attention to paper handling and resolution quality. This workhorse prints on both delicate stationery and card stocks, and can deliver a jaw-dropping 600-by-600 dpi resolution."

ComputerLand Magazine,
April 1992

The 4079 is a atershed color nter. The list of ures, low pricing, lid warranty... ombine to make s a color inkjet rinter against which others be measured."

S Strategic Decisions,
October 1992

Now that you know what inspired our competition, here's what inspires us.

"The low prices and numerous features of these printers for the Mac make for an unbeatable deal, indeed."

BYTE Magazine,
July 1992

The response to IBM® desktop printers by mark has been gratifying. Like the most recent litors' Choice" award from *PC Magazine* 24/92).

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unthreatening to consumers, yet they have the enormous storage capacity needed for multimedia devices. "The industry has been looking for a blockbuster, and I think CD-ROM could be it," says Eugene G. Glazer, consumer analyst at Dean Witter Reynolds Inc. The reason? Unlike new digital music formats, which cannibalize their predecessors, CD-ROMs create a new consumer category, much as videocassette recorders did. In the 16 years since the first home VCR was introduced, sales of VCRs and camcorders have brought their Japanese makers perhaps $200 billion in business.

BEWILDERED. The danger, as Glazer notes, is that with so many new and incompatible products coming out, consumers may get confused and buy nothing. In the music field, that's a worry for Sony and Philips, which in the past two months have released rival digital technologies for replacing cassette tapes. Both newcomers combine recordability with sound quality that's about the same as CD. Sony's Mini Disc borrows magneto-optic technology used for computer data storage to erase and record music on its 2½-inch-wide disk. Sony has overcome the skipping that plagues car and portable CD players by sending bursts of music into a memory buffer that never completely drains. So even if the laser is knocked completely off-track, the listener will never know.

By contrast, Philips' Digital Compact Cassette looks much like a conventional analog cassette. In fact, the player will also play the vast library of existing analog tapes. But pop in a digital cassette, and hisses and distortions disappear.

Even if they aren't confused, consumers may still be put off by the price of the new technologies. Philips' Digital Compact Cassette deck lists at $700, and Matsushita's version, under its Technics brand, is $1,000. Sony is aiming at the Walkman portable market, which it dominates, with versions at a pricey $550 and $750. At this month's show, dealers are seeing cheaper variations of both systems from a number of Japanese competitors, including Aiwa, Denon, Sharp, and Sanyo. By spring, they'll be on the shelves for less than $500.

It's too early to tell whether consumers are crying out for a new way to play and record music—any more than they're desperate, say, to display snapshots of last summer's vacation on their TV. For record labels, the good news is that, once consumers do buy new players, they'll probably splurge on music to play on them. Such as that fourth version of the Beatles' White Album.

By Larry Armstrong in Los Angeles, with Richard Brandt in San Francisco and Neil Gross in Tokyo

3DO'S NEW GAME PLAYER: 'AWESOME'—OR ANOTHER BETAMAX?

Opera? In Las Vegas? Not a big draw. Unless you're talking about a new video machine—code-named Opera—that could well be the highlight of that city's Consumer Electronics Show.

This machine, set to be unveiled by startup 3DO Co. on Jan. 7, has had Silicon Valley buzzing for months. For one thing, Opera will retail for a pricey $700 to $800. Then there are 3DO's backers: Analysts say 3DO has won as much as $15 million in funding from Matsushita Electric Industrial Co. and $5 million from Time Warner Inc. Altogether, the company has raised some $30 million. There also are glowing early reviews: Some who have seen Opera say it could be the best new piece of consumer electronics since the camcorder. "It's an awesome product," gushes Gilman G. Louie, chairman of software maker Spectrum HoloByte Inc. "This is the dawn of a new era of entertainment."

CEO HAWKINS: A MASTER AT CREATING SOFTWARE

The machine is the brainchild of 3DO's chief executive, William M. "Trip" Hawkins III, the founder of game-software maker Electronic Arts. Two years after moving to 3DO, Hawkins has come up with what software developers say is a device with better-quality graphics than any home computer or video-game machine on the market.

BEYOND GAMES. Thanks to a fast compact-disk drive, a powerful microprocessor, a custom graphics chip, and new built-in system software, Opera can play video footage and even display animated characters that appear to move in three dimensions. Computer games and video games now are limited to 2-D movements. Indeed, software developers say 3DO actually stands for 3-D operating system.

But the machine was designed to do more than just play games. Eventually, it will run movies stored on a disk, play audio CDs, and display Kodak Photo CDs. All that sounds good to Time Warner, which wants to release ture films on disk. The company a considering using Opera as a cable troller, since the device can re compressed video signals, allowin media giant to transmit hundre channels to cable buyers. Time Wa even sees Opera as a way to la interactive television program which viewers would be able to along with game shows.

Still, most of those functions have to wait. F demonstrations of machine have com short: Opera's re tion isn't up to quality, software d opers say, and the versions of the de due by next Christ won't be able to co cable or interactive Silicon Valley is rife with reports Time Warner is lukewarm about u Opera as a cable troller. Time Wa won't comment unt ter Opera's debut, those close to the pany say it is shop for other cable co lers, including one Toshiba Corp.

In the end, con ers may be unwilling to shell ou bucks for what initially will be another video-game player. Afte rivals Sega Enterprises Ltd. and tendo Ltd. constantly improve games' graphics. "If we had want create a $700 machine with the cap ities of the 3DO machine, we d have done that," says Thomas linske, CEO of Sega of America In

Nevertheless, Hawkins is a ma at creating software and attractin velopers. Already, such heavy hi as Paramount Communications' Paramount Technology Group, L film's LucasArts Games, and S On-Line say they will probably software for the machine. That's g because it will take some specta performers to lure buyers to an C that's this expensive.

By Richard Brandt in San Fran with Neil Gross in Tokyo

Commentary/by Harris Collingwood

THE NFL SAW THE LIGHT. WILL BASEBALL?

Ding-dong, the witch is dead. With the Dec. 22 announcement of a tentative plan to grant National Football League players true free agency, the reserve clause has finally given up the ghost. The clause, one of the most repellent bits of legal chicanery ever to poison labor-management relations, effectively bound a player to one team for as long as that team saw fit to employ him. Major League Baseball abandoned it first, in 1976. The National Basketball Assn. followed suit in 1980. And now, football players, too, at last have the right enjoyed by most American workers—to sell their services to the highest bidder. NFL owners acted only after sharp prodding by U. S. District Judge David Doty and the NFL Players Assn. Yet that shouldn't detract from their achievement. The plan makes a free agent of any player who has managed to survive five years in the league. Each team can protect one star, but it will have to ensure that he is one of the best-paid players at his position. And to prevent the richest owners from bidding prohibitively high for the top talent, each team's salaries will be capped at 67% of revenues from national TV rights fees and ticket sales.

STRIKE ZONE. Football didn't just dream all this up itself. Since 1983, the NBA has distributed certain revenues equally among all teams while setting aside a fixed percentage of the pot for player salaries. This brought fiscal sanity and labor peace to a league in turmoil. And it's no coincidence that the NBA and its players now enjoy rapid revenue growth and still rising popularity in the U. S. and abroad. There's a lesson in that, one that the NFL's owners and players got. Now, baseball should learn it, too.

There's no denying the need for financial reform in Major League Baseball. The owners have voted to reopen their contract with the players' union, raising the specter of a strike or lockout in 1993—the fifth work stoppage since 1981. That sorry record won't improve until baseball makes sense of its chaotic finances. With any luck, the NFL's new plan will goad some action.

If team owners need guidance, they need look only as far as the recently published report of the committee they and the players hired to study the economics of the game. The report lays the empirical foundation for a fairer distribution of baseball's wealth.

The best of the report's recommendations is that the 28 baseball teams share more of their revenues. As things stand now, the teams divide equally about $350 million a year from CBS and ESPN, which hold national TV contracts. They also split licensing money, to the tune of some $2.1 million a team in 1991. But those funds amount to only 26% of baseball's total revenues, according to the committee report. By contrast, the NFL's teams share about 90% of league revenues.

The revenues that aren't shared equally—in particular, local TV fees—pose the biggest financial threat to baseball. The New York Yankees rake in 18.5 times more local TV money than the Seattle Mariners, according to Smith College economics professor Andrew Zimbalist, author of *Baseball and Billions*. That disparity doesn't mean the Bronx Bombers will necessarily field a better team than the Mariners. New York may have the wherewithal to sign more big-name free agents, but there's no guarantee those players will produce victories.

POOR FARMING. Yet the financial gap does ensure that while Seattle may develop fine young players, it won't be able to afford them once they become eligible for free agency after six years of service. One result: The Seattle club remains in a constant state of rebuilding, losing the hometown heroes needed to build fan interest and loyalty.

Greater revenue-sharing is no panacea. There's potential for discord if the money to be shared isn't carefully defined and audited. Look at what happened in the NBA in 1991. The players charged that teams wrongly held millions of dollars out of the revenue pot. While not admitting liability, the NBA paid the players $31 million to settle the dispute.

Baseball can avoid such tangles by setting up the proper controls. More important is the principle of giving every team a fair shot at being a contender. No, money alone isn't enough. The Toronto Blue Jays and Atlanta Braves aren't champions just because they're wealthy. Both teams have spent their money wisely. But the Mariners of the baseball world shouldn't be deprived of the chance to troll for talent simply because their local TV market is smaller than the Yankees'. Level the financial playing field, and may the smartest—not the richest—team win.

Collingwood covers Sports Business for BW.

BASEBALL'S BUDGET GAP

The eight most financially powerful Major League Baseball teams generate far more revenues than the eight weakest. Yet player expenses are about the same for both groups

	Top eight	Bottom eight
Total local TV and radio revenues, including cable*	$125,610	$72,203
Total big-league player costs*	$222,261	$242,402

DATA: MAJOR LEAGUE BASEBALL'S JOINT ECONOMIC REPORT

*Thousands of dollars

In Business This Week

EDITED BY HARRIS COLLINGWOOD

WHO'S UP, WHO'S DOWN

Just how far have the mighty fallen? In IBM's case, from 8th place to 14th, as measured by market value. Here are the top 15 companies by market value as of Dec. 28, 1992:

Ranking		Market value (billions)	
Dec. 28, 1992	Dec. 31, 1991	Dec. 28, 1992	Dec. 31, 1991
EXXON			
1	1	$77.59	$75.61
WAL-MART			
2	3	74.57	67.65
GENERAL ELECTRIC			
3	4	74.19	66.11
PHILIP MORRIS			
4	2	70.27	73.82
AT&T			
5	7	69.14	51.23
COCA-COLA			
6	6	57.08	53.32
MERCK			
7	5	51.34	64.35
PROCTER & GAMBLE			
8	11	37.28	31.78
BRISTOL-MYERS SQUIBB			
9	9	35.10	45.85
PEPSICO			
10	17	33.92	26.73
JOHNSON & JOHNSON			
11	10	33.18	38.15
DU PONT			
12	12	32.62	31.30
GTE			
13	13	31.48	30.78
IBM			
14	8	29.53	50.82
BELLSOUTH			
15	19	26.21	25.19

DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC.

AS LOCKHEED LEARNS RUSSIAN . . .

▸ Talk about strange bedfellows. Former cold war contractors Lockheed and Khrunichev Enterprise are joining forces to provide a commercial satellite-launching service that would use a low-cost Russian rocket. The joint venture will team Khrunichev, a major Russian defense company, with the satellite expertise and marketing contacts of Lockheed's Missiles & Space unit.

The venture will also shake up the launch business, an industry that until now has been dominated in the West by Europe's Arianespace, McDonnell Douglas, and General Dynamics.

. . . MOSCOW TUNES IN TO TURNER

▸ Closer to the ground, other commercial frontiers also are opening in Russia. As of Jan. 1, ownership of Russia's first independent station, TV-6 in Moscow, passes to Atlanta's Turner Broadcasting System (TBS) and its partner, Moscow Independent Broadcasting. In November, they won the license for Moscow's last available VHF frequency.

TV-6 will start out with five hours of evening programming, including TBS's Cable News Network International, cartoons, and movies from the TBS vaults. The plan is to expand to a 24-hour schedule that eventually will include originally produced Russian programs. And yes, comrade, the idea is to generate profits by selling advertising.

FOOD LION: UNCLE SAM DOESN'T UNDERSTAND

▸ Food Lion is meeting with the Labor Dept. to head off federal charges of child-labor and overtime violations. The department is deciding whether to bring a lawsuit against the supermarket chain, based in Salisbury, N. C.

The department began its investigation more than a year ago, after the United Food & Commercial Workers alleged that company officials required employees to work after they had punched out. The department also said it found violations of rules prohibiting children from working with hazardous equipment, such as meat slicers.

A Food Lion spokesman says the government doesn't understand the system the company uses for scheduling workers. "We have strong policies against working off the clock," he says. "The problem has been a lack of information flowing to [the Labor Dept.] from us on how the system works."

MOMMY, TEACH ME HOW TO HANG TEN

Picture the scene, baby boomers: There you are on the porch of the old folks' home, rocking out to Jimi Hendrix and the Grateful Dead. All right, you're not at that point yet, but you have had to adapt to some of the realities of grown-up life.

Children, for instance. Even surfers, once the very emblem of carefree, unencumbered youth, now must worry about their families idling on shore while they rip the waves. Al with the usual surfer-dude gear on display at the latest W Cup of Surfing, held every December in Honolulu, was so thing called Kids on Tour: playpens, toys, and other equipm to keep infants safe and amused. It's the brainchild of Gre en Ray, wife of Australian pro surfer Tony Ray. Looking help the "stressed-out moms" who join their husbands on surfing tour, she's selling a line of kids' stuff suitable for endless summer. What would the Beach Boys say?

AMERICAN LINKS WINGS WITH CANADI

▸ AMR, parent of Ameri Airlines, agreed on Dec. 2 invest nearly $200 million struggling Canadian Airli International. In exchange its investment, AMR will ceive a 25% voting stake a $2 billion, 20-year contr to provide Canadian with variety of administrative vices. If the deal is approv American and Canadian p to integrate their frequent er programs but won't coo nate flight schedules.

WHITE HOUSE SCRIBES FOR HIRE

▸ CEOs looking to add so Washington polish to th speeches can tap the nev formed White House Writ Group—four speechwrit from the Reagan Wh House and one from Bus trade-negotiation office. Fo flat fee of $75,000, a CEO g a year's worth of speeches demand. That's less than cost of employing a st speechwriter, the group sa And there's a money-ba guarantee if the first spe isn't satisfactory.

FOUR-LEAF CLOVER

EDITED BY STAN CROCK

HY EASING BANK RULES ON'T PRIME THE PUMP

earch deep into Bill Clinton's psyche, where the Baptist spirituals boom and Elvis lives on, and you'll find a streak of Southern populism that colors his views on s and credit. Like a lot of Dixie politicians, Clinton be- that many deserving folks—especially aspiring entrepren- -are routinely denied loans by flinty-eyed bankers.

President, Clinton would like to do something about At his December economic summit in Little Rock, he ed some listeners by remarking that his proposed $20 bil- o $30 billion first-year stimulus plan peanuts compared with increasing loans," a lending spurt that Clintonites a "freebie."

e idea is simple—but then so was the r Curve. If financial regulations are l and bankers respond by boosting ng a mere 4%, that could send $86 n surging through the economy. That's stimulus because it wouldn't add to udget deficit.

ORAL EARFUL. The problems will start the new President tries to turn this into reality. True, Clinton has a sil- awbone. But regulators and lawmak- who still bear the scars of the thrift down, are in no mood to weaken rules tisfy a new President's desire for easy money.

any case, the economic punch of the regulatory revisions Clintonites are weighing will be far less than the mega- ber floated at the summit. With some determined arm- ing, the Administration would be lucky to wheedle $25 n in new stimulus, estimates DRI/McGraw-Hill economist l A. Wyss. That sum is "not trivial," Wyss notes, but as rk plug for a $6 trillion economy, it's "not significant."

ese reservations matter little to Clinton, who got an l about a credit crunch in his months on the campaign Actually, many economists think that stagnant bank ng is the result of a drop in demand—not supply. But even regulators concede there may be some biases in the system against commercial lending, especially to small businesses. Bankers fear examiners may question collateral backing commercial loans and demand write-downs. One Clinton transition staffer says the new Administration may urge examiners to ease stringent standards for loan evaluations. But the Bush Administration tried that a year ago, to no avail. Fact is, examiners now fear getting hauled before Congress for laxness more than they worry about Administration blasts for being too tough.

MULLINS: FEARS LOOSER STANDARDS

GUESSTIMATE. Clinton also may try to lighten some paperwork rules and shrink capital requirements for small-business loans. Some regulatory streamlining wouldn't be controversial. For instance, banks must go through the same proceedings for closing automated-teller machines as for shutting down a branch. Yet Federal Reserve officials and lawmakers oppose weakening capital requirements on the grounds that such laxity led to the excesses of the go-go Eighties. Any regulatory overhaul should contain "a firm commitment to maintain adequate capital standards on risky lending," insists Federal Reserve Vice-Chairman David W. Mullins Jr.

Even if a raft of changes go through, they're unlikely to prime the pump as much as Clinton hopes. American Bankers Assn. President William Brandon, who floated the $86 billion figure in Little Rock, concedes he had little economic basis for it. He simply thought a 4% rise in lending sounded reasonable and worked backward from there. Whatever the real figure is, some of it might go to refinancing existing loans, and some would merely replace other sources of funds. That would make Clinton's lending gusher more of a trickle. The lesson for Clinton seems clear: When it comes to bold talk of a lending "freebie," you get pretty much what you pay for.

By Dean Foust, Mike McNamee, and Catherine Yang

ITAL WRAPUP

PLE

ttorney General-designate Zoë Baird knows a lot about the corpo- world's legal concerns (page 30), criminal law isn't her forte. So she need a strong Criminal Div. chief. ong the names being circulated: shington lawyer Reid H. Weingar- of Steptoe & Johnson, a Justice t. alumnus who headed a congres- al probe of alleged links between gan campaign officials and Iran; ssachusetts Superior Court Judge hard G. Stearns, Clinton's Oxford mmate; and white-collar defense yer Jamie S. Gorelick of Miller, sidy, Larroca & Lewin, president of the Washington (D.C.) Bar Assn. and a friend of Baird.

REPUBLICANS

A new National Taxpayers Union report will embarrass Republican critics of the Democrats' free-spending ways. The study looked at pork-barrel and budget-cutting measures. It found that the four top GOP pols—Senate Minority Leader Bob Dole (Kan.), House Minority Leader Robert Michel (Ill.), House Minority Whip Newt Gingrich (Ga.), and Senate Minority Whip Alan Simpson (Wyo.)—had all sponsored bills that would have spent more than their deficit-slashing measures would have cut.

THE TRANSITION

The agonizing over "diversity" that marked Clinton's Cabinet choices is now affecting White House staff picks. Clinton has tapped pal Mack McLarty for Chief of Staff. Other posts are expected to go to symbolmeister George Stephanopoulos, as communications czar, and lobbyist Howard Paster, as congressional liaison. But the team isn't complete, because Clinton is searching for women and minorities for such slots as assistant for political affairs and domestic policy adviser. Arkansan Betsey Wright, who seemed a cinch for a top White House post, may go to the Democratic National Committee.

KAZAKHSTAN'S TENGHIZ FIELD IS RICH IN OIL—AND DEADLY HYDROGEN-SULFIDE GAS

OIL

THE SCRAMBLE FOR OIL'S LAST FRONTIER

As companies race to nab chunks of the former Soviet Union's vast reserves, Chevron is way ahea

It was a hot summer morning on Aug. 19, 1991, at Kenneth T. Derr's mountain home in Lake Tahoe. Getting up early, the Chevron Corp. chairman flipped on the TV and watched with horror the scenes of Soviet Army tanks rumbling into Moscow. Hearing that Soviet President Mikhail Gorbachev was under arrest by hardliners at his dacha on the Black Sea, Derr turned to his wife and ruefully remarked: "Well, I guess we can quit worrying about our damn Soviet deal."

That marked the darkest moment in Chevron's four-year effort to land Tenghiz, the biggest oil field to come up for grabs in more than two decades. Chevron's struggle to capture Soviet black gold reads more like a chapter out of a Russian novel than a business school case study. But it provides a glimpse of how a company managed to snatch a rich prize even as the Soviet Union collapsed amid mounting economic and political chaos. "It was like negotiating a deal on the front page," gripes Derr, 56, a tall, stocky Pennsylvanian who has been with Chevron since graduating from Cornell University.

FINAL HANDSHAKE. At long last, Chevron's monster deal is nearly complete. "There were a lot of people, even inside our own company, who said: 'These guys must have lost their damn minds,'" Derr told BUSINESS WEEK his first visit to Tenghiz recently. I on Dec. 28, Chevron announced that major issues regarding the 50-50 jo venture to produce oil at the Kaza stan field had been agreed upon. P duction is expected to begin in April

The Tenghiz project may turn out be the first in a slew of oil deals in former Soviet Union that could resha the world oil industry in the next cen ry. To be sure, the region's oil prod tion has slumped drastically since 1 and may not improve before the end the decade. But huge reserves are w ing—by some counts, up to 250 bill barrels—in Russia, Kazakhstan,

baijan. Virtually all of the world's mpanies, including Conoco, Amoco, sh Petroleum, Elf Aquitaine, Total, n, and Mobil, are vying for a piece e action.

evron is far ahead of the pack. By ng Tenghiz, it will have access to 4.5 billion barrels of oil—doubling orldwide reserves in a snap. That fuel its growth well into the next ry. The field could be as important e company as its predecessor's dis- y of oil in Saudi Arabia in the . And even though Wall Street con- s Chevron stodgy, the company has en to be a big risk-taker: Before hiz, it gambled and lost $1 billion in orn Sudan during the 1980s.

e many pioneering ventures, the hiz project has involved lots of luck an unusual cast of characters. It des the low-key Derr, who worked ay up from Chevron refineries to man in 1988. Another is James H. n, 51, a smooth New York lawyer merchant banker who has dealt Soviet trade for three decades. a U. S. representative for the Ka- government, Giffen knows his way nd the Kremlin and was close to al Soviet leaders, most prominently ail Gorbachev. He stands to make ons of dollars from his work in help- Chevron land Tenghiz.

USIVE DEAL? Another key figure is nnes Deuss, 50, a longtime oil trad- om Holland who gained notoriety in 980s for helping to break the trade argo on South Africa. Deuss, presi- of Bermuda-based Oman Oil Co., instrumental in helping Chevron the Kazakhs get past sticking s in their negotiations. Now, he ds to make millions, too, since his pany may become sole operator of a , new pipeline that will export hiz oil.

en there's Nursultan Nazarbayev, powerful Kazakhstan president and er Soviet Politburo member. He's is way to becoming the world's st oil potentate, since in 10 years, khstan's output could rival some of Persian Gulf emirates. Sitting in his dorf-Astoria hotel suite re- y, sipping a Heineken, he BUSINESS WEEK: "We will me one of the world's ng oil exporters in the century."

e Tenghiz tale began in when Giffen approached ron about joining the new rican Trade Consortium, d at setting up joint ventures in the er Soviet Union. Giffen's job as dent of the U. S.-U. S. S. R. Trade & omic Council gave him unique ac- to Gorbachev and potential U. S. ners.

Realizing that the consortium needed a U. S. oil company to supply cash, Giffen arranged a meeting with Chevron Chairman George Keller and Derr, who was then vice-chairman. Derr was skeptical. "It was still the evil empire time. U. S.-Soviet relations weren't that great, and we already had problems doing business with countries the American government didn't like—like Angola," he recalls. Still, recognizing that it always needed new reserves, Chevron sent specialists to check out oil fields throughout the Soviet Union.

They quickly zeroed in on an oil-rich stretch of land in western Kazakhstan that was once covered by the Caspian Sea. Camels roam freely on the flat, barren desert. The nearest villages, Karaton and Sarykamys, are windswept clusters of concrete-and-wood hovels.

But here, in the middle of nowhere, were oil fields that ranked among the world's richest. The jewel is Tenghiz, discovered in 1979, just a few miles from the Caspian. Poisonous hydrogen-sulfide gas permeated the field, making it dangerous to develop. It was also under intense underground pressure. In 1985, a well that blew out shot a flame 600 feet high that could be seen for 90 miles. Tenghiz drillers began calling their rigs "rocket ships" because they never knew when they would take off. But even though Soviet officials knew they needed Western technology, they were wary of surrendering their richest new field.

Instead, in 1989, they offered Chevron the chance to study an adjacent field called Korolev, just one-twelfth the size of Tenghiz. "Korolev was the loss leader," explains Richard H. Matzke, president of Chevron Overseas Petroleum Ltd. and its chief negotiator. "We agreed to develop it so we could get in on exploration."

WINNING PITCH. But Giffen saw an opening. Capitalizing on the growing goodwill between Washington and Moscow, he wrote to Gorbachev in January, 1990, pointing out that Korolev was too small to help finance many spin-off projects for other consortium members, such as RJR Nabisco Inc. and Archer Daniels Midland Co. He suggested expanding the Chevron deal to include Tenghiz. Gorbachev bought the argument, and Chevron was soon offered exclusive rights to study Tenghiz.

But just when the project seemed on track, Chevron got caught in the complex web of Moscow's increasingly unpredictable politics. In the spring of 1991, officials at the state planning agency appointed a commission to study the Chevron deal. Its leader was a little-known economist named Yegor T. Gaidar, who later served as Russia's acting prime minister for six months in 1992. Gaidar wrote a scathing report, condemning the Chevron deal as a shameless giveaway of national wealth.

To blunt the criticism, Derr invited the dozen members of Gaidar's blue-ribbon commission to San Francisco late that spring. But in New York, on the way to California, Gaidar took a side trip to shop for legal and financial ad-

CHEVRON'S PROJECT DOMINATES CASPIAN OIL

Tenghiz is the biggest oil field in the Caspian area. A proposed pipeline would help export its oil via the Black Sea. Amoco, British Petroleum, and others plan big projects nearby

CHEVRON'S DERR (RIGHT) WAS SKEPTICAL AT FIRST: "IT WAS STILL THE EVIL EMPIRE"

vice on whether the deal was up to snuff, sources say. He left the delegation, sensitive documents in hand, for meetings with the international law firm Cleary, Gottlieb, which he asked to organize an independent legal and financial review, sources say.

Derr thought the project had been spiked by the August, 1991, coup, but the putsch actually saved it. On Aug. 31, Kazakhstan nationalized its oil assets. Suddenly, Chevron was dealing with a new set of players. Nazarbayev threatened to put Tenghiz up for international bidding if Chevron didn't agree to fork over a stiff 87% of the profits to Kazakhstan. And taking a cue from Gaidar, Nazarbayev called in a team of international advisers: investment bank J. P. Morgan, British law firm Slaughter & May, and, most important of all, Deuss's Oman Oil.

NADIR. By the end of 1991, the Tenghiz deal looked dead again. The American Trade Consortium collapsed with the Soviet Union. Chevron canceled Giffen's consulting contract in early 1992. In April, Derr hinted to stock analysts that the deal might be off.

But just a few weeks later, on May 5, Matzke was checking in at the Ritz Hotel in Paris for a negotiating session with Deuss. He hadn't even unpacked his bags when Deuss informed him that they were going to Alma Ata, the Kazakh capital. Nazarbayev had a final offer. After an overnight flight and an hour or so of rest, they plunged into talks, hammering out compromises on royalty rates, taxes, and other outstanding issues. At 5 a.m., they finally agreed to set up the joint venture. Deuss, it turned out, played the decisive role. He convinced Nazarbayev that Chevron's final offer—an 80%-20% profit split—was reasonable by world standards.

But seven months of further negotiations followed. In December, following meetings in Texas and London, Chevron and the Kazakhs worked out all the leftover issues. Before the project can begin producing oil in April, the U. S. Congress and Kazakhstan must agree on a tax treaty. Kazakh Energy Minister Kadyr K. Baikenov expects approval within three months.

Still, a longer-term project remains unresolved—the construction of a pipeline needed to handle Tenghiz' increased output. Without the pipeline, the venture can't attain its goal of boosting production to 200,000 barrels a day by 1996. A consortium linking Kazakhstan, Russia, Azerbaijan, and the Sultanate of Oman plans to give an initial $850 million contract to Bechtel Overseas Inc. to build the pipeline to Novorossiysk, on the Black Sea (map, page 43).

But political disputes among the consortium partners and questions over Deuss's operational control of the pipeline project could slow it down. Derr is worried: "Clearly, the pr mise we're getting in [with] this project is that t pipeline will be built."

Another potential proble is that expectations are ru ning high among the first the project's 3,000 local wor ers at Tenghiz. Take the cre at well No. 23, which is i because there's no money run it. Workers alrea dream of dollar salaries a trips to America. "Our wag will improve, our condition our food. We'll get Americ uniforms to wear—th promised," declares Nozha Sartayev, a 30-year-old drill in khaki overalls and an ange hard hat.

LITTLE BIG BROTHER? Nor Chevron free of lo politics. Local of cials complain th Chevron has so f agreed to set asi only $50 million f investments in su social projects as ho pitals and schools. the same time, re dents and officia around Tenghiz we ry that Nazarbayev government in Al Ata will simply place Moscow as Big Brother that phons off the money.

For Chevron a other Western companies that are trying to do bu ness in the former Soviet Union, su problems won't disappear soon. But f mer Soviet republics were shut off fr dealing directly with Western partne and investment for 74 years. As th experience with world oil compan grows, it should become easier for th to understand and accept world st dards in their projects.

For Ken Derr, at least, hobnobbi with future Kazakh oil sheiks is alrea becoming routine. On his trip to Teng and Alma Ata in October, he was fe three times with traditional banque As the evenings' guest of honor, he ceived from his Kazakh partners a tra tional robe, a ceremonial hat—and t head of the ram he was eating. It's in a day's work for Western investors oil's new frontier.

By Rose Brady in Tenghiz and Pe Galuszka in Alma Ata, with Stanley R in New York and Richard A. Melcher London

CHEVRON'S BIG GAMBLE

OIL RESERVES

3.156 billion barrels worldwide
With Tenghiz: 7.656 billion barrels

TENGHIZ INVESTMENT

$10 billion over 40 years

1991 REVENUES

$40 billion

1991 NET INCOME

$1.3 billion

1991 NET INCOME PER SHARE

$3.69

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Commentary/by Andrea Rothman

U.S. TO WORLD: AIRLINE DEALS HINGE ON OPEN SKIES

British Airways PLC's bid to invest in USAir Inc. was heralded by industry pundits as a momentous opportunity to open world air markets. The Netherlands struck the first open-skies agreement with the U. S. last summer. Had the U. S. persuaded Britain to do the same in exchange for approval of a USAir deal, the British and Dutch agreements would have formed a critical mass powerful enough to blast open markets through the rest of Europe.

That's not how it turned out. But does the collapse of the BA-USAir deal mean hopes for open skies are dashed? Not at all. By refusing to approve the deal for anything short of a liberalized market in Britain, the U. S. has sent an arresting message: Competition and investment in the world's biggest passenger market are welcome—but only if done in a way that gives U. S. carriers equal opportunities in foreign markets.

MILD FALLOUT. The message isn't meant for the Brits alone. The U. S. is at a critical juncture with France, Germany, and Japan. Frightened by the success of tough U. S. carriers on their turf, those countries have taken protectionist positions to shelter their airlines. France renounced its bilateral treaty with the U. S. last spring. Germany and Japan also want to stifle competition by limiting capacity or flying rights of U. S. competitors. Had the U. S. allowed BA to exploit the U. S. market when U. S. carriers couldn't exploit Britain's, other countries would have seen no reason to soften their stance. Now foreigners know that if they want a piece of the U. S. market, they must accept increased competition in their countries.

That's what Canada soon will have to face. Air Canada has proposed buying a 27.5% stake in Continental Airlines Inc., but a stalemate in the open-skies talks between Canada and the U. S. could hold up the investment.

The U. S. can afford to negotiate patiently. Any short-term fallout from the collapse of BA-USAir should be fairly mild. USAir is shakier without BA's $750 million infusion, but the two carriers already are pursuing a revised deal that could include a smaller investment or just a marketing alliance. And Germany's Lufthansa or another carrier could well come courting USAir if a deal with BA doesn't work out.

Nor will the status quo be terribly disruptive to U. S. carriers in the near term. American Airlines and United Airlines benefit, ironically, as their multimillion-dollar investments in London routes won't be diluted by new carriers flocking to an opened market.

But over the longer run, failure to pry open the British and other markets would squeeze U. S. carriers, who depend on overseas growth for expansion. In two or three years, the European market should expand to a degree where U. S. airlines will need to increase capacity and offer new destinations to meet demand. They would be ill served by treaties that froze them at current levels.

OPEN-SKIES TALKS MAY DELAY A DEAL BETWEEN AIR CANADA AND CONTINENTAL

GROUP EFFORT. So the U. S. must begin fashioning long-term strategies for opening markets that will help its carriers compete. That calls for a coherent, across-the-board international aviation policy that sets clear guidelines for foreign-ownership limits and flying freedoms and establishes the link between the two. The U. S. talked ab open skies through the 1980s, but until last summer did the Transpor tion Dept. sit down to hammer out underlying principles of such a pact

It's unlikely that Britain will se as a catalyst for open skies, so t U. S. must look to multilateral relati ships with groups of countries, such those in the EC. That won't be easy, each country has its own agenda. I the industry's future is clearly w globalization, involving linkups tween U. S. and foreign carriers. A in such a world, bilateral agreeme between one single nation and anoth are simply outdated.

One promising approach is the St Dept.'s initiative to fashion a multil eral agreement w the seven Cent American countri Europe's nations a several years fr trusting Brussels negotiate on their half. In the next f years, as the airli shakeout on the Co nent continues, t weaker ones will d appear and the str ger may be more w ing to bargain, c fident that they survive in a mo open and competiti environment.

It will fall to Cl ton's Transportati Secretary designa Federico Peña a Congress to structure agreements th match developments in the commerc side of the aviation business. Su agreements could include changing t statutory limits on foreign own ship—from 25% to 49% voting shares as a carrot. They could call for a stat policy initiative clearly linking inve ment to liberalization of markets. Th could even hold out the possibility opening the U. S. to foreign-airlin competition. The transition to a wor of open skies is complicated and wo be tidy. The U. S. needs firm aviati policy as it enters the fray.

Andrea Rothman is Transportati editor of BUSINESS WEEK.

ND OF THE RISING
BLESS

n's slump wreaks havoc on the concept of lifetime employment

blue pinstripes and pol-
hed shoes, the wiry 52-
ear-old doesn't look like a
ime loser. Back in 1986,
the high yen sending ex-
sales reeling, he was one
800 managers asked to
a midsize consumer-elec-
s company. Now, he has
shoved out of his
00-a-year job as person-
anager of a floundering
vare company. "The
t part is interviewing
arrogant young men,"
ays, eyes flashing. "No-
wants a middle-aged
-collar guy like me."
the personnel manager
liscovered, the lingering
mic slump is producing
iggest blow yet to life-
employment, the core of
n's social contract. Small
midsize manufacturers,
ey have in the past, are
dy axing staff, and so
ordes of troubled real es-
and software companies.
now, even the least vul-
ble group—male employ-
t blue-chip companies—
vatching their backs. And the pres-
to tighten up will only intensify as
anies try to squeeze more profits
productivity from operations.
th the economy contracting just as
n's baby-boom bulge is rising into
managerial strata, there aren't
gh posts to go around. Nearly 17
n workers, 14% of the work force,
their forties, near their peak earn-
years. The ratio of labor costs to
ballooned to 12.4% this year, high-
an after the oil shock and the mid-
yen surge. "Companies ultimately
have to jettison the lifetime employ-
system to sustain profitability,"
Chiharu Shima, an economist with
Phillips & Drew International Ltd.

CLUES. Certainly, Japan's labor trou-
pale by U. S. standards. Unemploy-
is still a mere 2.3%. But the key
rs-to-applicants ratio, which mea-
s activity at employment agencies,
ed below 1.0 in October—the first
since May, 1988, that applicants
umbered positions (chart).
t the numbers disguise the depth of
pain. On a recent Friday in one of

PRAYING FOR WORK AT MARPUKA TEMPLE IN TOKYO

Tokyo's 18 Hello Work employment offices, dozens of people cluster around lists of job offers for males or females, above or below age 45. "Nothing here," grumbles one 44-and-under, flipping through pages labeled "sales—general." Another applicant, fiftyish, unemployed for several months, comes so often he buys monthly train passes.

To help Japanese workers navigate this unfamiliar terrain, crisis telephone lines are cropping up. In a bustling office of the Japanese Trade Union Confederation, two people counsel some 300 callers a month on the "Consult About Anything Dial." Traffic at recruiting agencies has abruptly shifted from part-timers, who are always the first to be let go, to middle-aged white-collar types. Software salesman Susumu Ohashi, 39, is a typical client. In November, his company advised its 360 employees to start looking for new jobs. Trouble is, Ohashi is knocking on some well-worn doors in an industry hurt badly by cutbacks at financial institutions.

To avoid the stigma of being the first to announce flat-out layoffs, many top companies are resorting to such gimmicks as transfers and early retirement. They now have departments with names such as Human Development Office—a euphemism for Pink Slip Central—that find spots for the paper shufflers, often by placing them with affiliated companies. Managers who get the dreaded *kata-tataki*, or tap on the shoulder, have the right to refuse, but they rarely do. Staying means being stripped of a job title, the 25% extra pay that goes with it, and one's dignity.

SO LONG, SENIORITY. More companies are signing up with outplacement agencies, such as Drake Beam Morin Japan. In the past two years, its client base has boomed fivefold, to 500. One leading department-store chain recently called on Drake to help it dump 300 managers, while a sewing machine company asked for help in eliminating 60 workers.

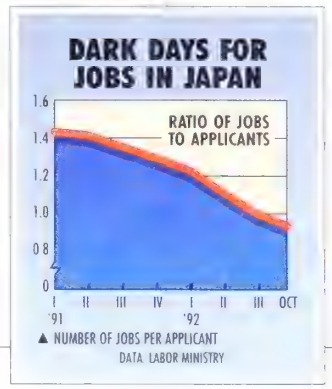
The Japanese are slowly moving away from another labor practice, seniority-based pay and promotion. Honda Motor Co., closely watched by personnel officers nationwide, recently introduced an incentive system that will make job performance—not seniority—the basis of bonuses for its 4,500 managers.

Corporate penny-pinching aside, lifetime employment is also eroding from the bottom up. A recent survey found that 75% of those in their twenties would change jobs if a better challenge came along, compared with 44% of total respondents. It has reached a point, says Shinji Yazaki, executive vice-president of Japan's largest wire-harness maker, Yazaki Corp., that "if I said: 'Work for me, and I'll take care of you for life,' people would laugh and call me crazy."

It has become a tricky balancing act for manufacturers. They've got to cut out the office flab and, as the birthrate plunges and disdain for manual labor swells, struggle with a blue-collar labor shortage. In addition, the government is aiming for a 40-hour week to boost the quality of life.

Companies can legally lay off workers in Japan, but it must be as a last resort. And the courts tend to be strict in their enforcement. But even Ohashi, the almost-unemployed software salesman, is rooting for more freedom for workers. "The company isn't a god anymore," he says. Still, at times like this, a little divine intervention couldn't hurt.

By Karen Lowry Miller in Tokyo



EDITED BY STANLEY

IT'S 1993—AND EUROPE CAN POP A FEW CORKS AFTER ALL

For years, the date Jan. 1, 1993, has been eagerly anticipated by Europeans. But its arrival finds many of them in too sour a mood to celebrate. Continentwide recession, combined with political jitters and a currency meltdown, has staggered the European Community in the final sprint to a single market. Confusion over rules and regulations is further detracting from the occasion. One busy Brussels attorney, Clive Stanbrook, says he is keeping his firm open round the clock during the first week of 1993 to deal with clients' crises. "Lawyers are going to earn huge fees," he says.

Despite all this grumbling a real revolution has taken place since the single-market drive began in 1985. As of Jan. 1, nearly all goods will flow across EC borders unimpeded. EC-wide product standards are being adopted. Value-added taxes have been brought closer in line.

GERMAN TRUCKING IS STILL CLOSED

Corporate Europe will never be the same, either. Companies have been forced to streamline vastly to survive. They have restructured and invested billions of dollars to operate on a European rather than on a national scale. This process has been aided by the lifting of controls on capital flows in order to facilitate cross-border mergers.

HODGEPODGE. Of course, idealists can find reason for disappointment. To save jobs, governments have been turning single-market regulations into a hodgepodge of postponements, exemptions, and exceptions. France and Italy have managed to hold on to protection for their brokerage houses until 1996. Germany's truckers have blocked foreign rivals from hauling between, say, Bonn and Berlin. And Britain's $700 million duty-free industry has made sure that fliers inside the EC can still stock up on cut-price liquor and cigarettes until at least 1999—even though the borders are supposedly gone.

While Brussels boasts that 94% of single-market directives have been passed, some of the toughest nuts remain int There has been no agreement on EC-wide articles of inco ration, trademarks, or corporate income tax. Europe seem have given up on enacting uniform labor rules. While pu procurement is supposed to be wide open after Jan. 1, m executives fear that some countries will continue to favo cal suppliers.

ESCAPE HATCHES. As recession drags on, Europe's many sh governments have little choice but to delay "reforms" that mean more lost jobs on top of the hundreds of thousa that have vanished over the past years. If the slump worsens, ther even a danger of backsliding. Some gle-market laws, such as banking li alization and product-safety standa contain clauses that could be used t impose barriers. "If reform starts hurt," says Karel Lannoo, a Buss based banking specialist, "there great potential to abuse these l holes."

But a more likely outcome is a newed push for deregulation once business cycle turns up. For one th Europeans are very enthusiastic ab the lower prices and wider choice of products and serv that deregulation will bring. And it will only get better. V rare exceptions, there will no longer be any limit on goods travelers can carry across EC borders.

Even big monopolies will continue to come under press to loosen their grip. Germany has already opened up phone system enough to allow American competitors s as Pacific Telesis Group and Motorola Inc. into the mar Those steps have been taken reluctantly. But Europe can't ford to go back to protectionism if it wants its companies t global competitors.

By Patrick Oster in Brussels, with Bill Javetski in Paris Gail E. Schares in Bonn

GLOBAL WRAPUP

MEXICO

The North American Free Trade Agreement could start running into some flak from a new source: Mexico's small but feisty opposition parties. They are gearing up to bombard the U. S. Congress with biweekly fact sheets to bring it up to speed on Mexico before it takes up NAFTA in early 1993. Senator Porfirio Muñoz Ledo, a top official of the Party of the Democratic Revolution, says Mexican interests were slighted in President Carlos Salinas de Gortari's race to push through a trade agreement before his six-year term in office ends in 1994. The opposition's goal is to give U. S. legislators a "more balanced" source of information on Mexican wages, labor practices, and environmental problems. They believe prospective trade partners should know that things in Mexico are not quite as attractive as the official line put out by Salinas' ruling Institutional Revolutionary Party might indicate.

JAPAN

While most Tokyo economists continue to carp at the government for not doing enough to snap the economy out of its doldrums, a few analysts are starting to call the end of the recession. Salomon Brothers Inc.'s Robert Feldman, for example, sees Japan's real gross national product growi 3.1% in the fiscal year starting ne April, following the anemic 2% or le expected this year. Corporate earnin in his scenario would make up m of the ground they lost this year. Fe man, who was notably gloomy in t downturn, thinks that much of t growth will come as a result of stim lus added to the $87 billion packa that the government announced l August.

While most indicators are still be ish, housing starts remain strong. A though private bank lending remai weak, lending by government instit tions, which accounts for 19% of t total, is ahead of last year.

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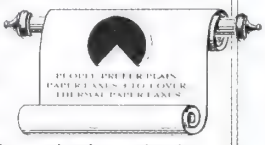

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BY GENE G. MARCIAL

A POULTRY PRODUCER TAKES FLIGHT . . .

This one is a real turkey, but take another gander: WLR Foods is looking tasty. Trading at 13 in the spring, the stock has winged up to 21 as of Dec. 28. Still, many of the Street's big investors have yet to notice it, even though WLR is a major, fully integrated producer of turkey and chicken products marketed under the popular Wampler-Longacre label.

One New York money manager has been buying shares for two reasons: the current consumer passion for "healthy eating," and the company's fundamentals, which he believes are turning around and could well produce better-than-expected earnings over the next couple of years.

Analyst Kenneth Gassman Jr. of Davenport & Co. in Richmond, Va., agrees. He recently raised his estimate for the year ending June 30, 1993, to $1.25 a share from his previous $1, and he has lifted his fiscal 1994 estimate to $2 a share from his prior $1.75. "After 10 negative quarterly earnings comparisons, the fourth quarter of fiscal 1992 was the first period to show improved earnings on a year-to-year basis," notes Gassman. His new $1.25 estimate could easily go up to $1.50 if the upbeat trend continues, he adds.

Prices of poultry feed, such as corn and soybean meal, have stayed low, Gassman notes, while wholesale poultry prices have gone up sharply—thereby expanding the company's profit margin. WLR produced some 300 million pounds of live turkeys and 433 million pounds of live chickens in 1992. The company's October acquisition of Round Hill Foods, a Pennsylvania turkey producer and processor, will add some 100 million pounds of capacity. WLR's 1992 revenues of $514 million from its six plants in Pennsylvania, Virginia, and West Virginia are expected to hit $750 million in 18 months.

GIZZARD GUZZLERS. Company insiders see two markets with strong sales growth: exports, where prices are sturdier, and fast food/food service, where demand from customers such as KFC and Hardee's Food Systems is on the rise. In exports, Japan has become a big outlet for WLR's dark meat, which is more popular there than it is in the U. S., as well as such products as gizzards, turkey skins, and chicken hot dogs. One company insider expects WLR's exports, which account for 5% of total sales, to double in the next two years. And sales to the fast-food/food-service market should jump from the current 24% of total sales to 30%.

Gassman sees WLR's stock rising to 25 in the next few months and then going up some more, to 30, over the next 12 months. Based on his $2-a-share estimate for 1994, he thinks a price-earnings ratio of 15 is modest. Of course, if earnings exceed expectations, that multiple should follow.

. . . AND A STEAK PURVEYOR SIZZLES

Steak houses have been quite popular on Wall Street, despite the sharp decline in beef consumption. Take Quantum Restaurant Group, which owns and operates 42 restaurants in 13 states, including 20 upscale steak houses called Morton's of Chicago. Quantum, which was initially offered in June at 10 a share, heated up to 18 by November.

The stock's IPO success so thrilled Quantum founder and Chairman Allen Bernstein that Quantum did a second offering in December—this time, at 15¼. Some analysts remain upbeat despite the creation of more shares. Shearson Lehman Brothers analyst Caroline Levy calls the stock, currently at 15, a "strong buy," and she expects it to hit 20 sometime next year. Shearson, along with Alex. Brown & Sons and Montgomery Securities, underwrote the two offerings.

Quantum also operates 10 Mick's restaurants, which feature hambu-ers, pasta, and sandwiches at moder prices. Quantum also owns 11 whi tablecloth Peasant Restaurants in lanta and Washington. And the com ny recently opened an Italian eatery Las Vegas called Lombardi's.

Bernstein says Quantum plans open at least 50 additional Morton's Chicago restaurants in the U. S. a overseas over the next several yea He has been talking with Japanese a French owners of hotels in Honolu Paris, Singapore, and Tokyo for licen ing agreements. Bernstein would say, however, whether the Japanese French interests would buy an equi stake in Quantum.

Veteran restaurant analyst Rog Lipton figures the company earned a share in 1992 and will earn $1 in 19

THIS STOCK DOESN'T SCAN

The world leader in portable b code scanning equipment, Symb Technologies, disappointed inve tors this year as its stock tumbl from a high of 26 early in 1992 to 13 yearend. And according to some sav pros, the slide is far from over.

Analysts expect Symbol to post loss for the fourth quarter, ending December, because weak retail sal crimped profit margins. Recent mov to streamline operations in an effort cut costs should be encouragin news—but not good enough for the pros. They still rate the stock a sell

They have even scaled back their ready depressed earnings estimates f 1993, despite the improving retail en ronment. Analyst Robert Mains First Albany has cut his estimate f 1993 from 70¢ a share to 53¢. While considers Symbol a good compar Mains doesn't think it's worth 22 tim next year's earnings. He sees the sto falling to book value—6 a share.

Symbol's restructuring plan to in grate its Bohemia (N. Y.) bar-code ser scanner operations with its Calif nia production of portable da collection systems should have a po tive effect over the long term, Mai concedes. Still, he figures that rev nues will grow only about 5% fro 1992's level because of lower sales th began in the third quarter. And he e pects business to remain soft, desp signs that new-product sales are ran ing up. Warns Mains: "We still do find any evidence of a strong pickup orders."

BANKS AND THE CHALLENGE OF THE NEW CONSUMER

For America's banks and ir customers, this will be a decade apid change, rigorous challenge— l of rare opportunity. The changes lude the disappearance of legions banks and of their mass market.

The challenges run the gamut from tomers' gnawing anxiety about their sonal financial security to discouragly low interest rates on bank accounts.

But all this only opens the door strong, forward-looking banks to vide their customers a much wider ay of financial products and ser-es, particularly those involving tual funds and other investment urities. In taking advantage of this portunity, banks will be doing them-ves—and their customers—a favor t should benefit both as the nation ves into the next century.

That was the message shared by he 200 ranking bankers who partici-ed in the **Fidelity Investments 1992 ancial Forum**, recently held at ston's World Trade Center in con-ction with *Business Week*.

Perhaps no one expressed both magnitude and the speed of the nge more cogently than **Paul J. ndros**, president of Fidelity Invest-nts Institutional Services Co., Inc., en he referred to "three or four rs ago" as "the old days."

Then, bankers were talking defensively about how to keep their depositors from defecting in droves to money market funds. Today, Hondros observed, they are talking aggressively about how they can "grow emerging businesses that have mutual funds behind them," such as college savings and 401k retirement plans.

LIVING IN A TRANSFORMED ECONOMY

Such new dimensions will matter all the more because banks can't count on any early replay of the lending-led consumer boom of the 1980s. Despite modest growth in the gross domestic product, "it still feels like a recession," said **James C. Cooper**, senior economist and Business Outlook editor of *Business Week*. Among the reasons he cited are the 1980s legacy of heavy debt at the federal, corporate, and consumer levels, defense budget cuts, and the way companies are adjusting—with wrenching workforce reductions.

Looking ahead, Cooper contended that "two structural megatrends" will dominate the economic outlook: "The collapse of communism and the rise of global markets." So far, the megatrends have meant European currency turmoil and a weaker dollar. But in the longer run the megatrends will have positive impacts, too, Cooper predicted, including stronger exports, faster productivity growth, and rising profit margins.

Will a growth revival in coming years also revive inflation? That was on the mind of many bankers. But, Cooper reassured them, the Federal Reserve has "a very real commitment to price stability." The monetary authorities, he said, actually aim to beat inflation down from 3% lately to the "pre-Great Society, pre-oil shock" pace of around 2% yearly.

GETTING TO KNOW THE NEW CONSUMER

Within that macro frame, Research Director **David A. Wyss** of DRI/McGraw-Hill painted the bankers a statistical picture of the customer base to which "you're going to have to adjust." In this picture, "there is no more mass market." The coming market, according to Wyss, will be shaped by such forces as "the rise in single-parent families," the

FIDELITY INVESTMENTS 92 FINANCIAL FORUM

30% of children living in poverty, the widening gap between the rich and poor, and "a work force undereducated for a world economy."

In addition, Wyss alerted bankers that "you will not have many new customers." The working age population in the 1990s is growing by less than 1% a year, and unevenly. Hispanics are "the fastest-growing ethnic group" in the U.S., he pointed out. Their ranks rose by over 50% during the 1980s, with another 40% gain in the cards by the year 2000. Hispanics are also "a very diverse" minority, Wyss added; for instance, 1990 census data shows that Cuban household income of $33,504 was about the same as the average American household, and exceeded that of Puerto Rican households by a good $10,000.

Other aspects of diversity also present opportunities for bankers nimble enough to pursue them. On the whole, blacks' incomes average only 54% of whites' incomes. It is less frequently noted that blacks who are married have moved up smartly to 80% of the white income level, said Wyss. And while "the average American has no net financial assets until he hits 55," that's what the nation's legions of baby boomers will begin to do around the year 2000.

Moreover, "the rich are getting richer," Wyss said, quipping that this is "not an enormous Republican conspiracy." The biggest factor is "the increased return to education" during the last two decades. In 1970, a college graduate made 50% more than a high school dropout; today it's about 100% more. And that's one reason why a top-earning household is increasingly likely to consist of "two moderately paid professionals, married to each other" — not the traditional highly paid husband, wife, and 2.5 kids.

Ironically, a bright note for bankers is that even the affluent are running scared. This is "a decade of fear in the minds of consumers," found **Jonathan D. Pond**, financial planner and Today show commentator. "They fear for their jobs, that they won't be able to live as well as their

parents...they see their grandparents running out of money." They see companies dropping defined-benefit pension plans in favor of less-predictable ones that depend heavily on employee contributions, and they're becoming "obsessed" with the fear that they won't be able to retire comfortably.

Justifiably so, according to Pond, due to trends in longevity and inflation. It's only prudent to plan on living into your 90s, he said, and pointed out that even 3.5% inflation "doubles your income needs every 20 years." For every dollar of income at age 65, "you need 20 in the kitty." In short, "you've got to be a millionaire these days to retire comfortably." So if you wait until your mid-50s to start saving, "you're going to be flipping hamburgers in your mid-70s."

> ***As the consolidations accelerate, the survivors will be those "who deliver the best quality service on the most cost-effective basis."***
>
> **John F. McGillicuddy**
> **Chairman**
> **Chief Executive Officer**
> **Chemical Banking Corporation**

THE BANKING REVOLUTION

With problems of their own, many banks won't be around to take advantage of their changing marketplace. Despite hundreds of mergers, "we are still an industry that has too much capacity," commented **John F. McGillicuddy**, chairman and chief executive officer of Chemical Banking Corp. As the consolidations accelerate, said McGillicuddy, the survivors will be those "who deliver the best quality service on the most cost-effective basis."

Yes, but service on what products? Opinions vary. "Some of our hottest products are annuities and insurance," reported **Victor J. Riley, Jr.**, chairman, president and CEO of KeyCorp. But the idea that banks can offer "one-stop shopping" for financial products is overplayed, Riley asserted. He expressed concern, too, that "non-traditional products" could prove "distracting from the core businesses" of taking deposits and lending money. Whatever is done, Riley would prefer to have the bank's own staff do it.

On this point, McGillicuddy displayed more of a sense of urgency. To the extent a banker needs to enlist an experienced mutual fund sponsor or other third-party vendor of investment products, he declared, "you'd damn well better—you can't afford to sit on the sidelines while you wait to grow your own."

That's because current low interest rates on traditional bank products are driving away depositors. Bank certificates of deposit are paying about 3% a year. That's roughly half what they paid a year or two ago—and, more importantly, only about half today's rates on, say, medium-term bond funds. So when a bank offers its customers nothing with yields beyond those on CDs, commented Pond, it amounts to saying "we don't want your money."

Understandably, "people are looking around a lot more" for places to put their money to work," noted **Joe Belew**, president of the Consumer

kers Association. But banks dn't lose those CD customers to kerage houses or mutual fund fami- To the contrary, the "problem" of rates on CDs and other traditional k products "can be the key to cus- er retention," said Belew—it opens re window of opportunity for kers to broaden their own offerings nvestment products.

Survey results, Belew reported, cate that "people want more finan- services from their banks." For thing, they want "a holistic roach" to their finances, including nprehensive financial services and solidated statements. While Wall et can provide that, Belew found banks have a major advantage in lling this central role: Despite the ch-publicized bailouts and other blems, Belew stated, "I think the sumer still trusts the banks."

Before bankers can take full antage of this positive consumer ude, though, many may have to dify their own mind-sets. For some, ay have started at the Fidelity um, as speakers set bankers to talk- in new terms. Evidently, referring nutual funds and other securities as n-traditional products" is fast ng from fashion. Meanwhile, the nition of "core business" is being adened beyond such staples as ckbooks and car loans, and is com- to embrace "investment products" ophisticated as individual equities, nicipal bonds, and collateralized tgage obligations.

It isn't enough, though, for erts and top executives to have a nmitment to broader services. It takes what speaker after speaker racterized as a "change in culture" ughout the bank. The old banking ure of passively producing some- g that the customer buys isn't ugh any more, counseled **Louis S. vey**, president of Dalbar Financial vices, Inc. Instead, he advised, ks need to adopt more of a "mutual d culture." This is a more active, s-oriented culture, he explained, t entails finding out what the cus-

tomer needs, and then creating something you sell to the customer. And the top brass must be prepared to back up the reorientation to sales with cash or other incentives. To encourage referrals, for example, **Joseph Cooney**, president of Dominion Investment Banking, Inc., strongly recommended "revenue sharing" within the bank branch network with the branches making referrals. This needs manager approval and support to make it work, and the branch manager needs to see the transaction profit on the individual branch P&L.

Based on their own experiences, bankers at the Fidelity Forum shared plenty of other nuts-and-bolts advice on engineering what many of them see as nothing less than a cultural revolution. "It's a big jump— after 100 years of offering customers traditional bank products. The addition of non-traditional products, such as mutual funds, affords customers the convenience of meeting their investment needs at the same place they conduct their traditional banking business," observed **Arthur E. Creel**, vice-president of First Tennessee Bank's Discount Brokerage operation. Further, the bank is re-educating tellers and customer service representatives not only to understand that a customer consider alternative investments, but also to understand that "when the money leaves the CD to go into a mutual fund, the customer's needs are met and the bank will benefit, also."

> ***"Some of our hottest products are annuities and insurance, but the idea that banks can offer 'one stop shopping' for financial products is overplayed."***
>
> **Victor J. Riley, Jr.**
> **Chairman, President and CEO**
> **KeyCorp**

While a bond fund, for instance, could mean double the income to the customer, the income comes from the underlying assets in the fund, not from the bank itself. And the bank typically shares in any sales load and in the stream of on-going management fees. That fee income might well bring more to the bank's bottom line than retaining the deposit and using it to support lending, speakers said—no reserve requirements or loan-loss provisions are needed, for instance.

As warmly as they welcome some immediate bottom-line benefits, bankers said that building long-term relationships with customers is the overriding reason to offer investment products. They can amount to "an umbilical cord to the customer," observed **J. Edward Diamond**, president of the Dime Agency, Inc., a unit of the Dime Savings Bank:"Often, a person looks at the place where his stocks and bonds are as his primary financial provider."

For bank and customer alike to remain winners over the long haul requires very careful handling, to be sure. A customer who gets burned because he wasn't prepared for share price fluctuations may be lost to the bank forever, and too many such episodes could throw the whole movement into reverse, bankers cautioned. So

the banker must "know the customer," in terms of net worth and risk-tolerance, and "educate" the customer, too, making sure he or she knows that yields and prices of investment securities do fluctuate, and that they carry no Federal Deposit Insurance Corp. guarantees.

Clearly, the prospect of positioning themselves to be the primary provider of financial services appeals to many bankers. A census of some 7,500 banks and thrifts (in the $50 million to $10 billion size category) showed 718 offering full service, face-to-face brokerage facilities, reported **Richard A. Ayotte**, senior partner of American Brokerage Consultants, Inc. Discount brokerage is offered by 1,712 banks and thrifts, but fewer than half of them have any on-site sales personnel. So it is still the case, concluded Ayotte, that "the bank brokerage business has barely begun."

Or, looked at the other way, it still has lots of room to grow. And as bankers look for ways to get in on this growth opportunity, they find some of their erstwhile rivals willing and able to assist them. For them, too, it makes dollars-and-cents sense. Providing services to banks and other intermediaries "is one of the fastest growing parts of the business," reported Hondros of Fidelity's institutional services unit where assets under management are up from $27 billion at the start of 1991 to $50 billion. "The banking channel is the most important," Hondros said. Among the reasons he cited is the synergy between "our marketing abilities" and "the inherent strengths banks have," notably their "bricks and mortar" and "the trust that people have in them." For their part, even banks running their own mutual funds find that nationally known fund families have strong drawing power among customers: "Their eyes light up when they hear Fidelity or something like that," said **Jeffrey H. Champlin**, publisher and editor of *Bank Investment Representative*.

Bankers' eyes lit up, too, as they heard **J. Gary Burkhead**, president of Fidelity Management & Research Co., describe "Fidelity's unique investment culture." It's rooted, he explained, in

developing a strong in-house research staff of more than 270 professionals who do their job "the old-fashioned way." That, Burkhead explained, means face-to-face meetings with companies around the world—some 25,000 times a year—as well as "lots of homework: preparation of spreadsheets, calls to competitors, customers and suppliers, and reading annual reports at night." Instead of committee-based conformity in investment strategies, Burkhead said, Fidelity depends "on the talent, skill and independent decision-making of individual managers."

Among those managers, bankers were particularly eager to hear from **Jeffrey Vinik**, who since July 1 has run Fidelity's famed Magellan Fund in his own way. While Magellan owned around 1,200 stocks under the legendary Peter Lynch, Vinik has trimmed it down to about 550 issues. He plugs the next day's trades into his home computer at night, so having fewer stocks, Vinik quipped, allows him "an extra half hour of diaper-changing." Vinik said he picks stocks on a "bottoms up" basis—judging each company on its own merits rather than according to some "grand theme." Even so, thanks to years of corporate cost-cutting, he added, the economy would have to get "just a little bit better" for cyclical companies generally to enjoy "explosive" earnings gains.

> ***This is "a decade of fear in the minds of consumers."***
>
> **Jonathan D. Pond**
> **Financial Planner and**
> **Today Show Commentator**

Overall, the 1992 Fidelity Forum demonstrated that banks are entering an exciting new era. As Consultant Harvey Dalbar put it, "Banking is undergoing a fundamental change," a change he characterized as being of the same revolutionary magnitude of "the automobile displacing the carriage and horse."

Bankers acknowledged facing a myriad of critical and unaccustomed decisions, including how to join the revolution: whether to select and sell nationally known mutual funds, for instance, or launch their own, or both (which some bankers said works best). And there are bound to be mistakes. The most frequently mentioned mistake, however, was the one conceded by **Mark A. Coffey**, senior vice-president and Investment Division manager of First Interstate Bank of Texas: "We underestimated our potential."

As the unexpectedly favorable response of customers at his and other banks suggests, it may not be so hard after all for banks to adjust to the investment revolution. "I think they can change their culture," declared **Andrew Cohen**, principal in Mercer Management Consulting: "they must," he added, if they are to survive. In other words, what the Fidelity Forum made clear is that in the financial services revolution, the riskiest course of all would be to try to sit it out. ■

This text was written by Richard F. Janssen, a Pennsylvania based writer.

BusinessWeek

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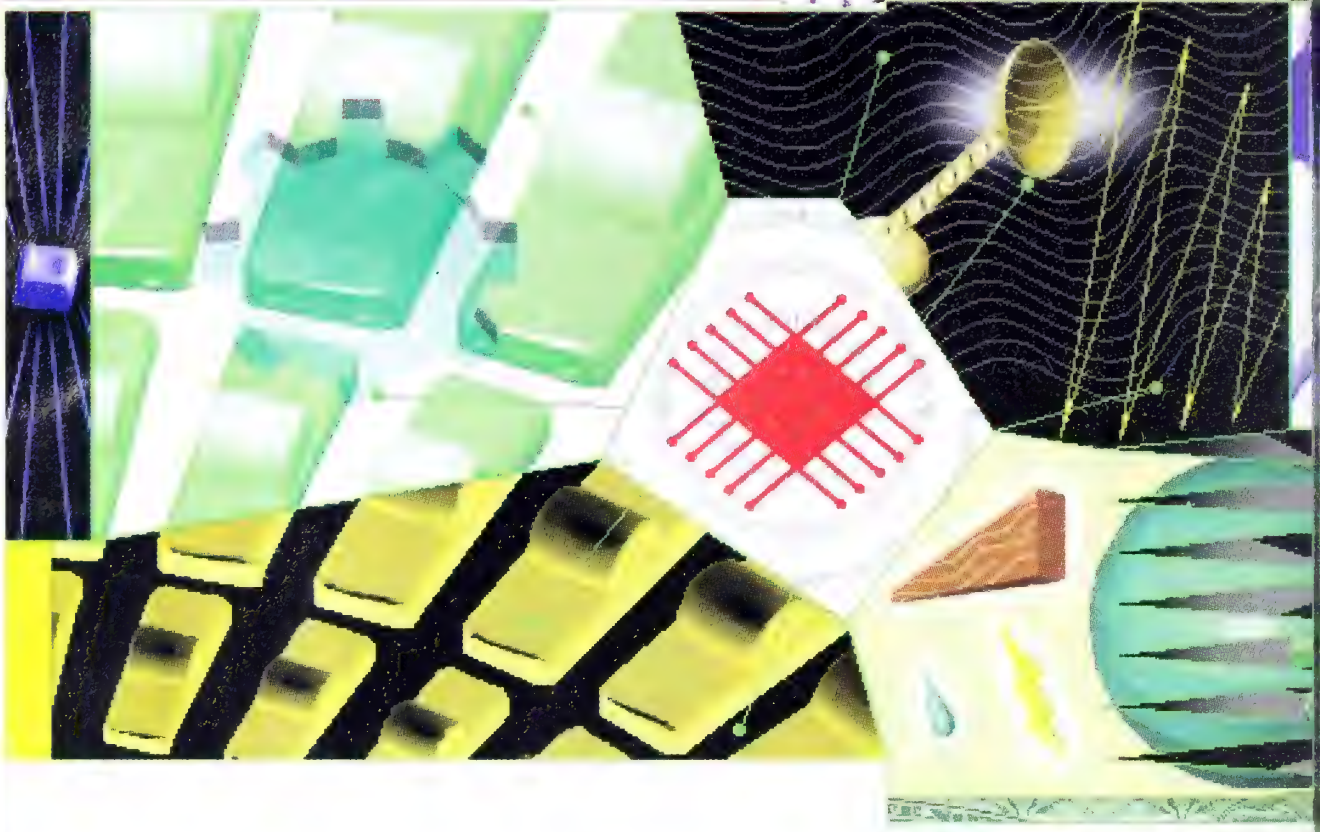


THIS REBOUND JUST MAY BE FOR REAL

CONFIDENCE IS UP, AND CLINTON COULD GIVE GROWTH AN EXTRA KICK

This may be the year the economy finally shakes off the blues. As 1993 begins, many key economic indicators are on the rise. Consumer confidence is up, and so is industrial production. Single-family home starts are running 21% higher than a year ago. And even the job market is starting to revive. "The economy is showing impressive signs of a turnaround," says David Resler, chief economist at Nomura Securities International Inc. in New York. "I'm more upbeat than I've been for a long time." For good reason. After three years of dead stops and false starts, the economic news in the second half of 1992 was unexpectedly cheerful: a 3.4% growth rate in the third quarter, followed by a strong fourth.

This momentum should carry into 1993. Interest rates are still at 20-year lows, putting money into the pockets of both business and consumers. Companies are gearing up to boost plant and equipment spending. And the incoming Clinton Administration seems likely to adopt a moderate fiscal stimulus package—perhaps in the form of an investment tax credit—which could give an extra kick to growth.

Many forecasters now see the economy expanding at a 3% rate or more through most of 1993, with growth gradually strengthening toward the end of the year. That' not impressive compared with earlier recoveries. But i would be enough to push up operating profits by almos 20% this year, according to estimates by DRI/McGraw-Hil And that should be enough to add new jobs to the econo my, a welcome relief after three tough years.

WILL IT LAST? There are those who remain skeptical, c course. Economists have predicted a recovery two or thre times since the recession started in July, 1990, and man corporate executives aren't yet ready to embrace the lates good-news forecast. "We see our own order book strength ening," says Thomas C. Graham, chief executive office and president of steelmaker Armco Inc. "But we saw th same thing last summer. Then it collapsed on us." An while Richard A. Clarke, chairman of Pacific Gas & Electri Co. in San Francisco, sees reason for optimism, he too i still worried. "I think the economy is improving, but I'm no sure it's sustainable," says Clarke.

The recovery also doesn't yet feel real to many out-of work Americans who see the unemployment rate stuc above 7%. Manufacturers have eliminated 1.4 million job over the past 4 years, and most of those are not comin

ILLUSTRATION BY JOHN HERSEY

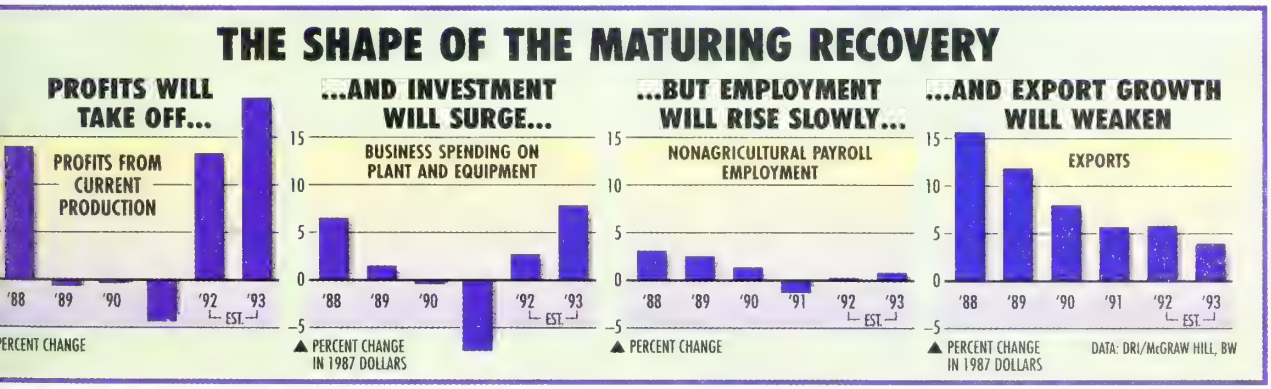
k soon. General Motors Corp. and IBM have just an-
nced plans to chop tens of thousands more positions in
. Defense contractors are still shedding jobs. And eco-
ic weakness in Germany and Japan means that most
orters won't be hiring either.

ven so, the recovery is finally developing enough
ph that it should overcome the drag of slow job
vth. The biggest plus is low interest rates, which are fi-
y working their magic on the balance sheets of business-
nd consumers. Typically, interest rate declines take
it 12 to 18 months to stimulate the economy. Sure
igh, the big cut in rates that the Fed made in Decem-
1991, is only now having its full impact.

nd some impact it is. Nonfinancial businesses have
n able to take advantage of the low rates to shed some
billion worth of debt, and refinance much of the rest.
porate interest expenses have dropped by some $20 bil-
annually. Consumers have reduced their high-cost con-
er installment credit by some $15 billion since the end of 1991, and refinanced home mortgage debt at low rates. And with inflation now running at only 3% annually, many economists expect long-term rates, now at 7.3%, to drop even further.

NEW MARKETS. With less debt on their books and a lower cost of borrowing, companies should be ready to start spending on plant and equipment again. The latest Commerce Dept. survey of investment plans shows that capital spending, adjusted for inflation, could be up a healthy 7.6% in 1993.

One company taking advantage of a reduced debt burden to boost investment is TW Services Inc., the largest Hardee's Foods Systems Inc. franchisee and the operator of Denny's Inc. and two other restaurant chains. Saddled with a mountain of debt from the late 1980s, TW has been able to cut its interest costs by refinancing at lower rates, and it has gotten a $300 million cash infusion from Kohlberg Kravis Roberts & Co. That's enabling it to boost the pace of its Denny's restaurant remodeling program



and to add as many as 140 new Denny's and Hardee's restaurants this year as well.

With the economy improving, businesses are also looking to expand into new markets. General Nutrition Inc., the Pittsburgh-based retailer of health and fitness items, plans to open 300 stores in 1993, according to CEO William E. Watts. He sees an opportunity to lower the costs of expansion by taking advantage of high vacancy rates at shopping centers throughout the country. "They're crying for tenants," says Watts. Capital spending plans in 1993 could be lifted even higher if Clinton gets Congress to enact an investment tax credit after he takes office.

No matter how that comes down, job growth, though improved, could be anemic this year, and that will keep a lid on consumer spending. Cutbacks at giant corporations g most of the press, but the pressures of global competiti are forcing companies all across the economy to slash lab costs and boost productivity. "Companies will be very sl to add workers," predicts Richard A. Zimmerman, chairm of Hershey Foods Corp. His company is now putting plants that require about half the number of workers run as did similar factories five years ago.

TRADE DRAG. Manufacturing, in particular, faces two spec problems that will hold job growth in factories to almo nothing in 1993, according to estimates from DRI/McGra Hill. For one, defense spending, adjusted for inflation, is pected to drop by 8% this year, on top of a 7% drop 1992. That means a continuing erosion of jobs in ae

CAN THESE THREE TOP THEMSELVES IN '93?

TURNING UP ACES

Who needs high rollers? Not Circus Circus Enterprises Inc., the self-styled Kmart of the U. S. casino industry.

With seven casinos in Nevada, the $806 million gaming company caters to the blue-jeans-and-Winnebago crowd. And the strategy is paying off. Circus Circus has the gaming industry's highest profit margin and its best return on equity. In 1991, when gambling in Vegas was off by 2%, its reve grew 16% and profits rose 35%. Ever 92, as it started to pay the bills on 50 million, pyramid-shaped casino ca Luxor, its earnings ran 20% ahead of

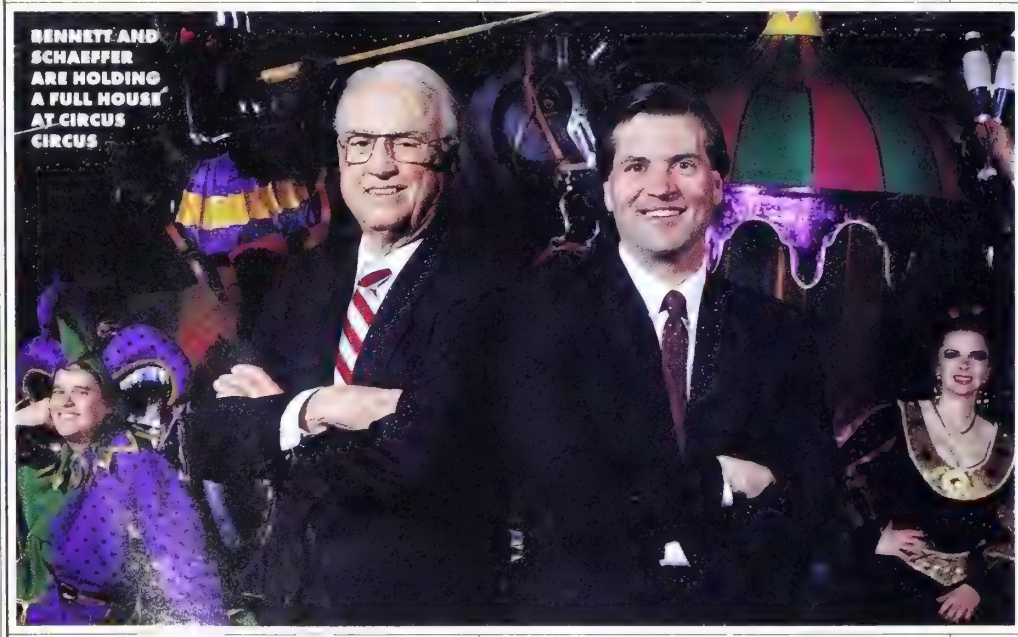
Circus Circus is rainchild of William G. Bennett, 68, former furniture retailer who brought mass-market-ing philosophy to the V Strip in 1974. By charging an average $35 a room, Bennett fills most of the 11,000 at his Vegas, Reno, and Laughlin hotels most nights. To keep customers in the casinos, he has circus acts and even a jousting tournament. Unlike his Vegas competitors, he offers few free rooms or complimentary drinks to players, and he keeps advertising costs low. Over the past year, the company's cash flow was strong enough to cut debt to a third of its total capital—among the industry's lowest ratios. It isn't even borrowing for the 30-story Luxor, due for completion in October, which will dominate the Vegas skyline with its Egyptian motif.

Circus Circus' success in tapping the mass gaming market is drawing imitators, says company President Glenn W. Schaeffer. Billionaire Kirk Kerkorian is one, with his $1 billion MGM casino and theme park. So is master market Wynn, whose Treasure Island when finished, will offer a st battle to complement the mecha cano of his Mirage casino next

Bennett and Schaeffer think top even this. Luxor, with its s spaceship rides and other tooth entertainment, will keep clie straying too far from its doo claim. So will a $50 theme park, with a flu that drops 52 feet over fall and a four-loop roller

So why worry about of the industry? Does worry about I. Magnin?

By Ronald Grover
Vegas



BENNETT AND SCHAEFFER ARE HOLDING A FULL HOUSE AT CIRCUS CIRCUS

A VENUS IN BLUE JEA

It has been years sinc textile company wa growth stock. But th America's love affair wit that's what Cone Mills these days. Since it re as a public company in shares have surged nea to 14½. Analysts expect i a double-digit profit gain to about $50 million on lion in sales.

That's quite a turnar an obscure company tha was hobbled with $420 million aged-buyout debt. At the time, and collapsing domestic demand Cone Mills with too much capacit main product, corduroy fabric. like chasing a bouncing ball d stairs," says Chief Executive O Patrick Danahy of the seven-ye gle that ended in the closing corduroy plants. Last year, Co proceeds from its initial public of

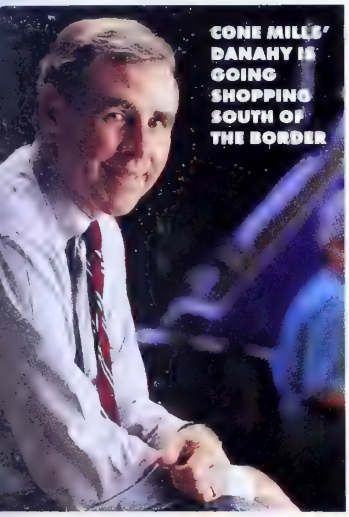
ce, electronics, and other defense-related industries. And there's little chance of a big expansion in U. S. nufacturing exports in 1993. The U. S. has become the -cost producer in many industries, such as paper and el (page 72). But many big overseas markets, such as rope and Japan, have turned sluggish. Germany, in parlar, will grow a paltry 0.5% this year, according to ecasts by Merrill Lynch & Co. The investment company ures that Japan's growth rate will be only 1.6%.

Instead, the recovery will be fueled by the service sec- Because domestic service companies are more insulat- from foreign competition, it's easier for them to add rkers and raise prices. A recent Dun & Bradstreet rp. survey of business expectations shows that execu- es in service industries are more optimistic about sales, fits, and even employment. "Business-to-business servic- es are beginning to pick up now that people are becoming confident in the recovery," says Joseph W. Duncan, chief economist of D&B.

Indeed, employment is slowly starting to pick up across much of that two-thirds of the economy, from business services to wholesaling to many of the financial services. Computer and data-processing services alone have added 29,000 jobs in the past 12 months, while securities and investment firms have taken on another 32,000 workers.

Job growth, however modest, may be the long-awaited sign that the longest period of sluggish growth since World War II is finally coming to an end. Perhaps no one will celebrate in the streets. Still, the odds are good that by the end of 1993, even the skeptics will be willing to smile.

By Michael J. Mandel in New York, with Lois Therrien in Chicago, Steve Baker in Pittsburgh, and bureau reports



CONE MILLS' DANAHY IS GOING SHOPPING SOUTH OF THE BORDER

UNION PACIFIC'S DAVIDSON IS TEAMING UP WITH TRUCKERS

its debt in half, to $110 million. he company is the nation's larg- n producer, with a 25% market d given the back-to-basics trend 0s, that's a fine place to be. es denim in more than 360 col- as an exclusive supply contract i Strauss & Co. for its 501 blue also sells to Calvin Klein, Land's L. Bean, Wrangler, Lee Appa- Oshkosh B'Gosh.

ts aren't a worry at the mo- ce a heavy fabric such as denim t to ship from the Far East. Be- one Mills sells at 1980 prices, constant improvements in man- g efficiency and quality. In fact, v exports about 25% of its den- Danahy, 48, who was named 990, sees exports as a growth

IAN MOVES. The Notre Dame ty engineering grad isn't stop- re, however. He's on the prowl sitions in the U. S. And because s Congress will approve the merica Free Trade Agreement, ting for joint ventures in Mexi- entral and South America. Next e deals in Eastern Europe, Chi- India.

Those are refreshing, contrarian moves in an industry that for years has complained about being damaged by textile imports but has done almost nothing to challenge foreign rivals in their markets.

By Chuck Hawkins in Greensboro, N. C.

THIS TRAIN KEEPS A-ROLLIN'

Quick: At which U. S. railroad have 60% of the employees invested 401(k) plan money in the company's stock? Which carrier posted a $1.02 billion operating profit last year, and earned a 7.1% return on assets?

The answer is Union Pacific Railroad Co., whose estimated profits reached a record $665 million in 1992, on revenues of $4.9 billion. The credit for that goes partly to Michael H. Walsh, a former Cummins Engine Co. executive vice-president who was the railroad's chairman from 1986 to 1991. When Walsh asked employees how to improve the railroad, recalls Richard K. Davidson, his successor, they said, "the problem is you"—management bureaucracy. So, as the company slashed employment 32%, to 27,500, over the past seven years, it wiped out six management layers and 1,600 white-collar jobs. UP's pseudo-military culture was junked, and decision-making pushed down the ranks. Says Davidson: "As long as customers are satisfied and [UP managers] maintain safety standards and their budgets, they never hear from us." UP also has spent $3.8 billion since 1987 to refurbish itself, including $1 billion for new locomotives and $50 million for a new dispatching center.

Now, Davidson, who broke into railroading as a Missouri Pacific Railroad Co. brakeman in 1960, sees good growth in two areas: intermodal transport with trucking partners, and freight shipping to Mexico. In intermodal, he's shooting for $100 million in revenue by 1995, vs. $2.7 million last year. South of the border, he has teamed with government-owned railroad Ferrocarriles Nacionales de Mexico to streamline operations: Freight now moves from Chicago to Mexico City in four days. Davidson expects revenues from this business, now $300 million, to grow 15% a year.

UP expects to earn $725 million in 1993 on revenues of $5.1 billion. Employees aren't just buying UP stock out of loyalty: They see a railroad with a future.

By Sandra D. Atchison in Omaha

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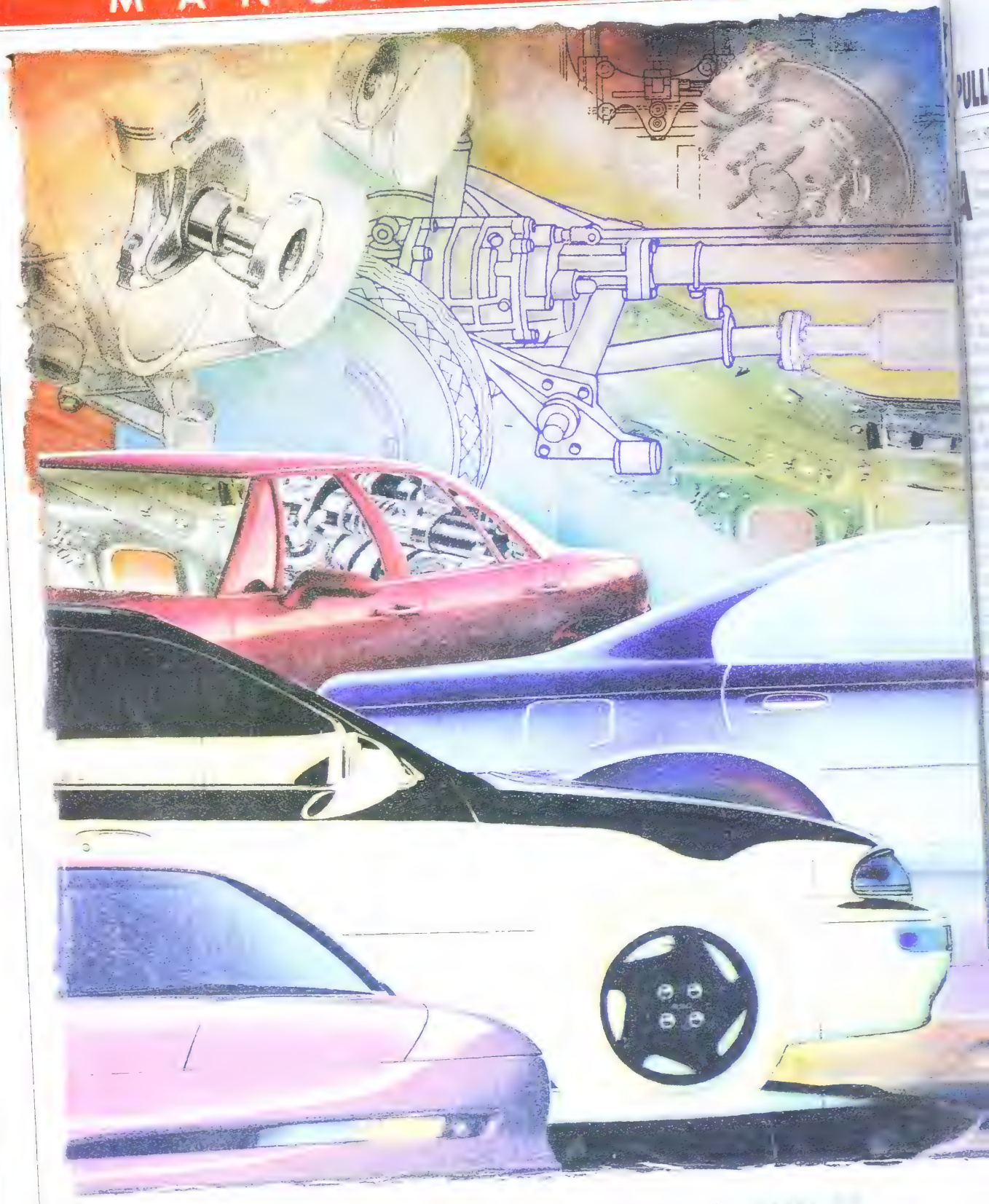

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ILLUSTRATIONS BY J. W. STEWART

AUTOS

IS DETROIT PULLING UP TO PASS?

Barring strikes, it could keep gaining on Japan

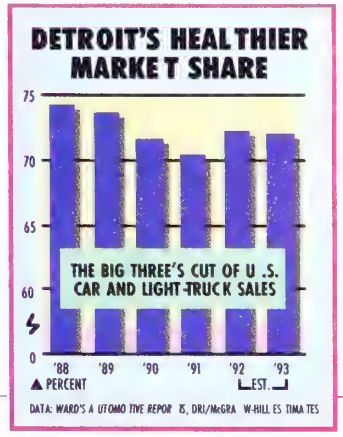
After more than a decade of losing sales to Japan, Detroit believes that it is finally turning the tide. This year, buoyed by booming truck sales, the Big ee auto makers expect to hold on to the nearly two nts of market share they picked up in 1992, when some % of the cars and light trucks sold in the U. S. were irs. "We're gaining [on the Japanese], and they know it," s just-retired Chrysler Chairman Lee A. Iacocca.

The Big Three won't all prosper equally, it's true. No. 2 d Motor Co. and No. 3 Chrysler Corp. may record high-sales, but their success will probably come more at the ense of beleaguered General Motors Corp. than the anese. And GM could have a bad fall if negotiations h the United Auto Workers sour and lead to a Sept. 15 ke. Odds are that the UAW will try to set the industry's ge pattern at No. 1 GM, where it struck three plants in 2, though Ford could be targeted instead.

M's problems aside, Detroit has good reason for opti-m. Buffeted by tariffs and tighter trade quotas, the ng yen, higher capital costs, and slumping car sales at ne, Japanese companies hiked their U. S. auto prices by average of 4% last spring, plus 2.7% more last fall. roit's increase was just 1.2% for cars that, on balance, improving in quality and styling. Chrysler and Ford, in ticular, "have tremendous product lines," says Timothy liette, president of ITT Corp.'s auto-parts subsidiary.

LDING THE LINE. The Big Three also should benefit from ore buoyant market. They lost a staggering $7.5 billion ing the 1991 sales slump. But this year, U. S. light-vehi-sales are expected to rise 7%, to 13.8 million units, on of last year's 5% increase. That should put Detroit in black. Morgan Stanley & Co. analyst Scott Merlis ex-ts Chrysler to earn $1 billion on revenues of $40 billion s year, though new accounting rules for retiree health efits are sure to drag that down. In December, Ford k a $7.5 billion charge against earnings to cover the new es and the cost of paring 10,000 jobs in Europe. Merlis s it's now poised to earn $1.1 billion on revenues of $87 ion this year. Even at GM, Chief Executive John F. ith Jr., who took over in November, vows the company's rth American operations will break even, before interest l taxes. That should lift GM out of the red.

As the turnaround ns momentum, each of the Big Three is ting a new chief. ere's Smith, of course, o-nonsense executive o helped turn around 's European operation the late 1980s. Robert Eaton, who also ved his mettle at GM Europe, replaced Ia-ca as Chrysler chair-n on Jan. 1. And later s year, Alexander J. Trotman, head of Ford's worldwide auto operations, is expected to take over as chief when Harold A. Poling retires.



Even before the new leaders can have much impact, the Big Three are avoiding the sloppy habits that usually accompany auto sales rebounds. Aside from holding prices down, they're bringing out new products faster. And they're getting creative on marketing, dabbling with no-haggle selling techniques and equipping vehicles with standard packages of popular options at attractive prices.

Detroit is also whomping Japan in one of the fastest-growing and most profitable sales segments: light trucks. Trucks grew to a record 41.6% of vehicles produced last year, as consumers replaced sedans with pickups, minivans, and sport-utility vehicles. With nifty entries such as Ford's Explorer and Chrysler's minivans and Jeep Grand Cherokee, Detroit's share, now 91%, was up more than four points last year.

The Big Three still have plenty of cause for worry—especially GM. A strike there could be devastating, and several disputes could kindle one. As the company restructures, it is already discussing with the UAW some touchy issues involving layoffs and loss of work to outside suppliers, in hopes that they can be partly resolved before formal contract talks begin. Health-care benefits are another hot but-

THE BIG THREE OWN 91% OF THE LIGHT-TRUCK MARKET, UP FOUR POINTS IN 1992

ton. GM has cut benefits for salaried employees and will seek similar concessions from rank-and-filers.

Even without a strike, GM faces a year of struggle. Like Ford and Chrysler, it must continue to curb its habit of pumping up sales by giving money-losing bargains to rental-car companies. And as it streamlines and slashes overcapacity, it will have to speed critical new products to market at a time when cash is scarce. Next year, its aging lineup and a lack of new 1993 models could cost GM a full point of its 34.4% market share, figures Dean Witter analyst Ronald Glantz. GM marketing chief J. Michael Losh disagrees: "We're not going to give up any market share," he declares. He argues that GM's numerous new-in-'92 models are strong enough to hold their own.

One imponderable for Detroit is whether the Clinton Administration will be a net plus or minus. Clinton has talked about stiffening fuel-economy standards, which would cost big bucks, and raising taxes on the wealthy, which could further weaken Detroit's profitable luxury-car sales. But Clinton also could endorse some form of protectionism that would hurt Japan. The likeliest example: a change in the definition of what qualifies as a truck under import rules. This would help Detroit by raising tariffs on imported minivans and four-door sport-utility vehicles to 25%, from the current 2.5%.

Either way, Detroit isn't writing off Japan. But newly retired Ford President Philip E. Benton Jr. thinks Japan's market share may peak near its current 25%. Even if the Japanese carmakers' troubles are temporary, "'dumb old Detroit' has finally got its act together," contends Chrysler President Robert A. Lutz. This year will be just the first of many tests that will tell if he's right.

By Kathleen Kerwin with David Woodruff in Detroit

DEFENSE

NOWHERE TO RUN, NOWHERE TO HIDE

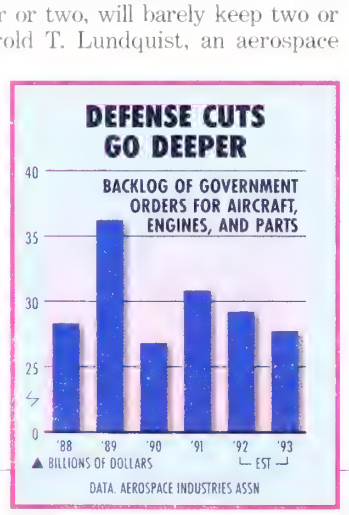
As defense collapses, only the strongest survive

A stronger economy may be welcome news for most industries, but it won't help defense companies much this year. As the recovery gathers steam, the Clinton Administration will ask Congress for more cuts in the already fast-shrinking Pentagon budget. This could force arms makers to hasten the massive restructuring they've already begun, and more companies could leave the business—voluntarily or not.

Congress has approved a weapons-procurement budget of only $53 billion this year, down 6% from 1992 and less than half the late-1980s' budgets. "You don't have to go to Harvard business school to figure out what is happening," says Michael Armstrong, chief executive at General Motors Corp.'s Hughes Aircraft subsidiary. Arms makers are going beyond the traditional strategies of diversifying, converting to civilian production, and boosting foreign sales. Late last year, for instance, Lockheed Corp. and Martin Marietta Corp. bought major units from rivals. More consolidation lies ahead. Grumman Corp. may be the next to merge. And companies such as Northrop Corp. may be consigned to subcontracting work.

LESS FAT. The shape of the new defense industry is becoming clearer thanks to the Lockheed and Martin acquisitions. Lockheed will pay $1.5 billion for General Dynamics Corp.'s military aircraft business, whose $3 billion in revenues include F-16 fighters and part of the work on the Air Force's next-generation F-22 fighter. Martin's $3 billion acquisition of General Electric Co.'s defense electronics work makes it the biggest supplier of radar and satellite technology. As the two consolidate their acquisitions, industry employment could fall by 300,000 in 1993, predicts the Defense Budget Project, a Washington research group.

Even with massive realignments, excess capacity will still plague the industry. Seven airframe makers will be vying for contracts that, in a year or two, will barely keep two or three afloat, predicts Jerrold T. Lundquist, an aerospace consultant with McKinsey & Co. The Aerospace Industries Assn. thinks backlogs for aircraft parts will fall to $28 billion this year, down 24% from their 1989 peak. That means companies such as Rockwell International Corp. and Grumman may emulate GD and LTV Corp. and exit the airplane business. GD is selling itself off piecemeal, returning the proceeds to shareholders through a stock repurchase plan. "The industry is imploding," says Lundquist.



There's also a shakeout looming in everything from helicopters to armored vehicles, where FMC Corp. is combining its operations with those at Harsco Corp. The merged business will have annual sales of $1.3 billion and virtually all the military's business, since GD is getting out. The operation will be run as a joint venture, with FMC owning 60% and managing the company.

IN A HURRY. For many, the motivation to merge or sell is heightened by the need to do so while defense units are still profitable—and still have value. In addition to selling its airframe operations to Lockheed, GD has peddled its Tomahawk and other missile businesses to Hughes Aircraft Co. for $450 million. These moves have enabled it to retire $8[illegible] million in debt. In the first nine months of 1992, it earned $641 million on $4.8 billion in revenues, almost double its profits for the same period last year.

Even defense electronics, long spared the budget scalpel, faces a shakier future. Indeed, GE's sale to Martin Marietta could be the signal for such companies as Texas Instruments Inc. and AlliedSignal Inc. to bail out, industry analysts say. Some electronics outfits are still doing well, however, thanks in part to overseas sales. A West German Air Force contract for an airborne surveillance system should help E-Systems in Dallas post a 10% increase in 1993 net income, to $135 million on sales of $2.3 billion, predicts analyst Byron Callan at Prudential-Bache Securities Inc. Thanks partly to acquisitions, he adds, Loral Corp.'s profits will jump 39%, to $169 million this year.

No one will emerge stronger from 1993 than Lockheed and Martin, both of which should dominate Pentagon contracting for years. The purchase of GD's F-16 fighter business will add $16 billion to Lockheed's revenues over the next decade and ensure it most of the work on the Air Force's $9.55 billion F-22 development aircraft. Martin's purchase of GE's aerospace business vaults it right to the top of the Pentagon's defense electronics list. It should earn $540 million on $10.3 billion in sales this year, says analyst Howard Rubel at C. J. Lawrence, and Lockheed $[illegible] million on $13 billion in sales.

One other survival strategy is to sell military gear in commercial markets, as Hughes and TRW Inc. are doing. They're betting big on such products as digital cellular phone systems and radar-based collision-avoidance systems for vehicles. Still, even the most successful defense conversion can't bring back the old days, when a huge Pentagon contract meant that life was secure for another decade.

By Eric Schine in Los Angeles, with Amy Borrus in Washington

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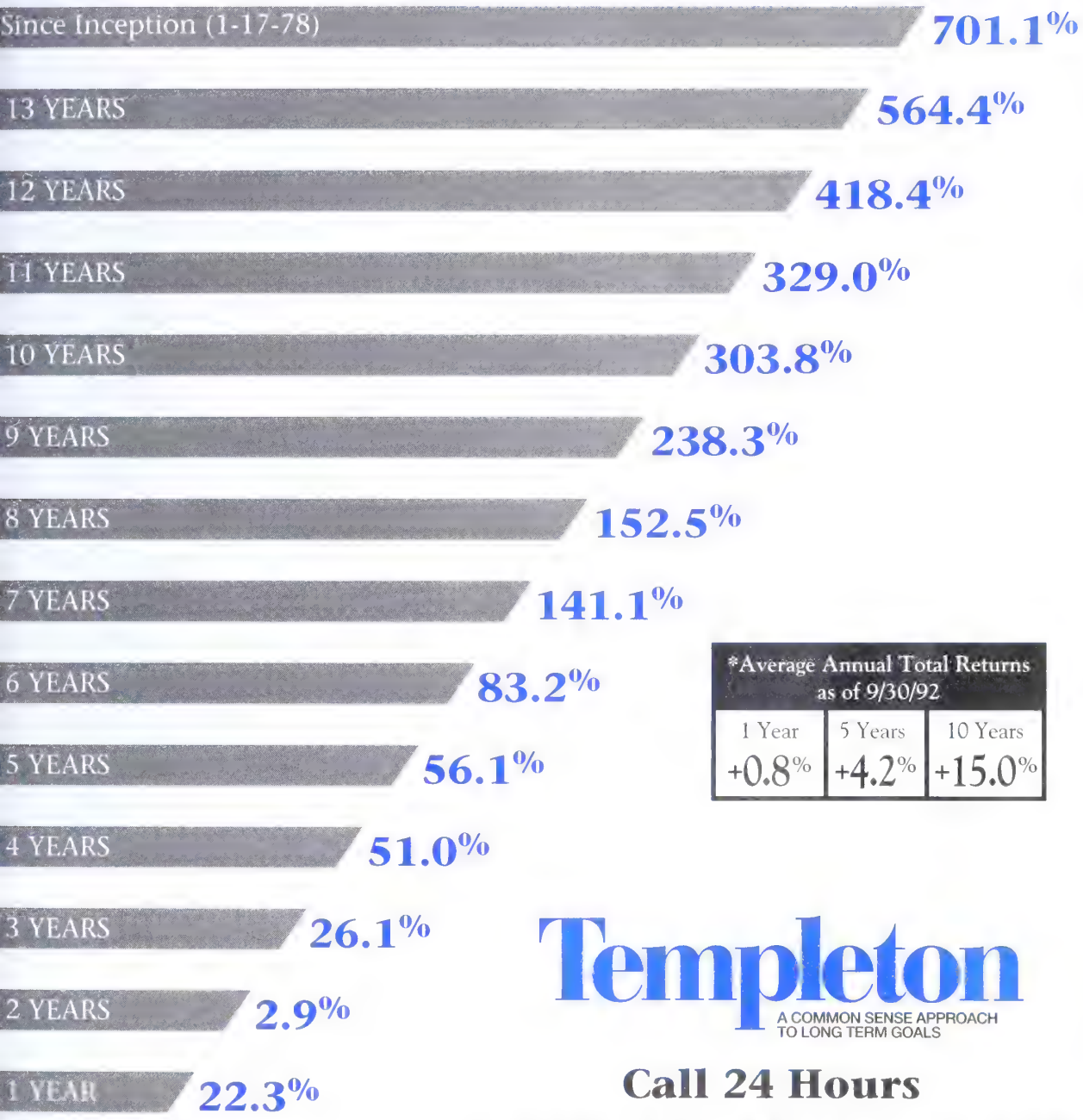

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MACHINERY

WILL WASHINGTON GREASE THE GEARS?

Tax credits could get machine shops humming

For several years now, U. S. machinery makers have been hankering for Washington to restore tax incentives that make their products cheaper to buy. This wish could come true in 1993, when the Clinton Administration may push an investment-tax credit into law. The credit, which was repealed in 1986's tax reforms, could put more oomph into a machinery recovery that most experts anticipate anyway as rising consumer spending spills over into manufacturing.

Most seers expect Congress to pass a 10% tax credit speedily and probably make it retroactive to December. Laurence H. Meyer & Associates, a St. Louis economic forecasting firm, thinks such a credit might add 7.4% to equipment spending in 1993. "It would drive the beginning of a reinvestment binge for small shops and be very beneficial to large shops, too," declares Michael K. Campbell, senior vice-president of machine-tool maker Hurco Cos.

MENTAL LIFT. Not everyone is so sure. Many industries are still so glutted with capacity that they don't need more equipment. And the lag time involved in making many machines could delay the sales upturn. Still, makers of machine tools, pumps, compressors, and materials-handling equipment think a tax credit will, at least, prompt Industrial America to consider new investment. "It will be a psychological benefit," says Raymond E. Ross, president of Cincinnati Milacron Inc.

Machinery makers will take any help they can get. U. S. capital spending was up about 5.4% in 1992, but nearly all of the increase went for telecommunications and information-processing gear, not industrial machinery. One reason is that sales at many durable-goods makers are still well below prerecession peaks. Auto makers, for example, aren't spending heavily on new equipment. Pulp and paper producers aren't either (page 90).

That has put the hurt on such companies as pump-makers. Last year, orders even fell for replacement parts, which usually provide plump profits. Executives at major producers such as Goulds Pumps Inc. and BWIP Holding Inc. say parts orders are down because customers are cutting inventories to save money—and they know suppliers can respond much more quickly today than they could in the pas

That's just one of the structural shifts that have shake the machinery business in the past decade. Few manufa turers are building new plants to add capacity these day Instead, notes John F. Townsend, marketing vice-pre dent at Giddings & Lewis Inc., they're investing "to i prove competitiveness, to improve quality, and to ga faster response time to market conditions."

That won't cause a boom, but it should help capit spending rise by perhaps 7.6% this year. Already, Cincin ti Milacron sees brisk demand for machines that mo plastic. That's an area closely linked to consumer spendi and one that usually foreshadows stronger machine-t sales. John M. Raab, marketing vice-president at Raj stan Demag Corp., notes that orders for small convey systems used widely in manufacturing increased 27% la year. "We're hopeful this signals that 1993 will be a go year, for both big and smaller systems," he says.

There are reasons, apart from a tax credit, why this is good bet. Corporate profits have been rising, and intere rates are low, making equipment affordabl "The fundamentals in the industry will be favorable as they've been in quite a while," sa Don Lane, vice-president of the marketing gro at LeBlond Makino Machine Tool Co.

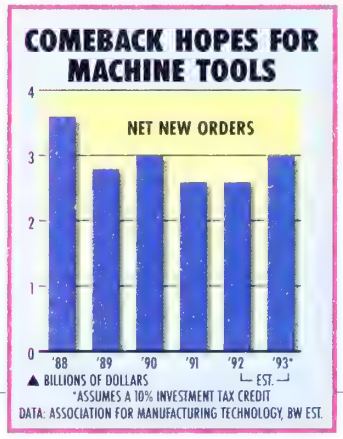
DESPERATION OVERSEAS. Moreover, the U. S. now a low-cost place to manufacture. Whe once they went abroad, lift-truck makers a beefing up U. S. production. Clark Material Ha dling Co., which was acquired by Terex Cor last year, is adding 130 jobs in Kentucky. "Th almost named me king of Lexington," jokes Pre ident Gary D. Bello.

But few other machinery companies will adding jobs this year. Many are still restru turing, and some changes in ownership are cre ing uncertainty. A new joint venture in pum making between Ingersoll-Rand Co. and Dress Industries Inc., for example, is preparing to co solidate its 18 major plants, which will cut bo capacity and employment. Even in the stro lift-truck market, excess capacity is causing i tense price competition. Larry Wuench, marke ing director at Mitsubishi Caterpillar Forkl America Inc., says Cat lowered its prices 4 last year after a roughly equal drop in 1991.

Nor will overcapacity disappear any time soon. Ec nomic slowdowns in Japan and Europe will zap U. S. m chinery exports. Weak business abroad also means produ ers there will try to boost U. S. sales. "You've g a desperate Europe and a desperate Japan," says Ha nischfeger Corp. President Jeffery T. Grade. He wan Washington to limit investment-tax credit U. S.-made machinery.

Whether Congre takes his advice or n machinery makers w take approval of the centive as a good sig A signal that, at la the long-term climate capital investment in t U. S. is starting to tu in their favor.

By Zachary Schiller Cleveland



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Responding to the jokes about Alabama being years behind, Ray Rosewall says, "That's absolutely not the case. Mobile, especially, is very forward-thinking in attracting new business, very open to change." He adds, "The city is much more of a melting pot of people than I expected." Concerning the labor force, Ray says, "They're very hard-working; you just don't find workers in the rest of the country who take so much pride in their accomplishments. As for professionals, we have found many bright engineers from the state's universities."

"Friends have ked us, 'When you et off the plane, do you set your watch back 20 years?'"

Ray Rosewall, ecutive Vice President, QMS, Mobile

Tim and Pat Langan didn't really expect to move to Alabama when they came here for Tim's interview with the Alabama Shakespeare Festival in Montgomery. "But we saw the best production of Chekhov ever, and made up our minds to come here at intermission," Tim says. "We felt that working with a theater that draws an audience from all over the nation, even 64 foreign countries, would be an excellent opportunity. And I've never seen such strong community support for a theater." The Langans, who have a six-year-old son and a 16-year-old daughter, say that the move from Rhode Island to Alabama has "Given us our family back... the family unit is more together here, and people know how to relax and enjoy themselves."

"We expected Shakespeare to be performed with a Southern accent!"

Tim Langan, Managing Director The Alabama Shakespeare Festival, Montgomery

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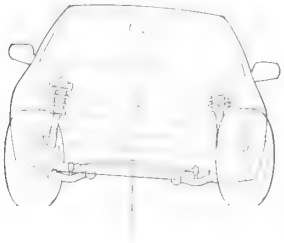

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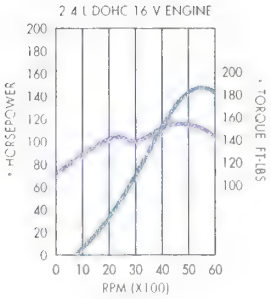

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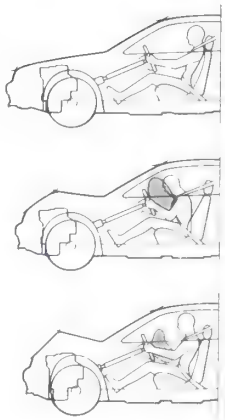

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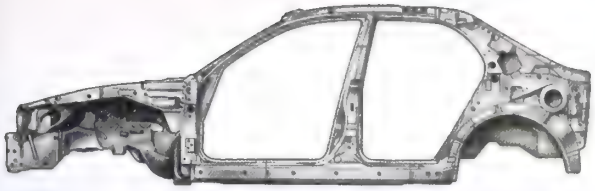

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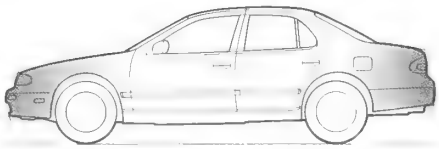

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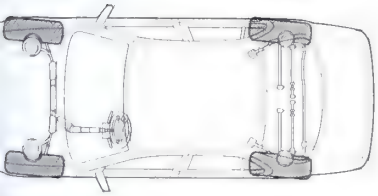

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STEEL

STRIKING WHILE THE IRON IS HOT

Big Steel and the minis are ready for Clinton

If the economy is finally hitting its stride, can good times for steelmakers be far behind? If not good times, how about steel's best year since 1989. The industry's shipments should rise 3.6% in 1993, to 85 million tons, analysts say, enough to boost prices a bit. So after suffering operating losses of $1.5 billion in 1991 and $1 billion last year, the six big companies at the top of the $39 billion industry may earn $500 million in 1993. "At least some will make money," says Donald F. Barnett, president of Economic Associates, a McLean (Va.) consultant.

Steelmakers can credit two factors for that: the recovery, and their own fight against foreign steel. Last spring, the Bush Administration allowed 10-year-old "voluntary" quotas on imports to expire. Subsequent talks with U. S. trading partners failed to erect new barriers. So 12 big U. S. steelmakers took their case to the Commerce Dept., where they charged overseas competitors with being government subsidized and with dumping—selling steel in the U. S. at below-home-market prices. On Nov. 30, Commerce agreed with the subsidy charge. Its preliminary findings on the dumping complaint are due this month.

TIGHT SUPPLIES. Final rulings on both aren't due until June, but already, the requirement that importers post bonds until the charges are resolved is discouraging imports and tightening supplies. At steel service centers, which buy 25% of the steel sold in the U. S., inventories are at an unusually lean 90 days. So, any new demand "should translate into orders to domestic mills fairly quickly," says Andrew G. Sharkey III, president of the Steel Service Center Institute in Cleveland.

Prices are rising in anticipation. Producers have announced a Jan. 1 hike of $10 to $20 a ton on flat-rolled steel, used in cars and appliances, and buyers expect at least part of that to stick. It will take even more to lift the industry into the black: That would require about a 5% hike in the current average price of $470 a ton across all steel products, according to a PaineWebber analysis. But many companies could get by with less. An overall increase of $7 a ton would let U. S. Steel break even, says Thomas J. Usher, CEO of the steel division of USX Corp.

The big mills are this close to profitability because they're leaner than ever. Over the past decade, integrated steelmakers—the old-line companies that blast iron ore in steel—spent $23 billion modernizing and rationalizing the plants. They've closed 37 million tons, or 25%, of capaci and installed continuous-casting equipment and new lin for galvanizing steel. Today, U. S. producers need only average 5.3 work-hours to make a ton of steel—slightly le than their Japanese and European counterparts. Th hope to cash in this year if President-elect Clinton follo through on his promised infrastructure spending.

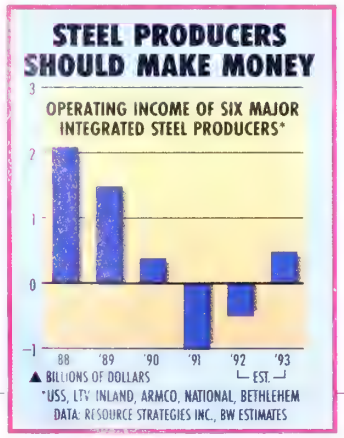
MUCH TO DO. Still, it will take several years of healthy mand for the industry to thrive. Restructuring left t integrateds holding pension and retiree health insurance ligations that PaineWebber calculates at $20 for eve metric ton of steel they make. That will make it hard to tice lenders and investors to bankroll the next round of ne essary investments. William T. Hogan, a longtime st authority, figures companies must invest $25 a ton, more than $2 billion a year, just to survive the '90s. T needed additio range from coke o ens to technologi for meeting clean- rules to mills th can make sheet st to within 0.002 inc "Our wish list e ceeds our ability fund it," says Natio al Steel Corp. Chi Economist Joseph Rainis.

What's more, th year's buffer again imports—which a now 17% of the U. market—may be on a breather. Importe are mobilizing man facturers who rely foreign steel to lo by against dutie And if stiff steel ta iffs get in the way a General Agreeme on Tariffs & Trade breakthrough, Clinton may push for negotiated agreement—which would end any windfall fro steel import duties. Meanwhile, strapped auto makers a unlikely to swallow big steel-price increases without fight. And minimills, which make steel by melting scrap electric furnaces, are entering Big Steel's markets.

The only minimill that has moved into flat-rolled ste the heart of Big Steel's business, is Nucor Corp. But a N cor expansion in Indiana, plus a plant in Arkansas, w nearly double its sheet production in 1993, to 2.1 milli tons, says CEO F. Kenneth Iverson. Other companies, fro Mexico's Hylsa to Oregon Steel Mills Inc., also plan buy the "thin-slab" casting equipment Nucor is using which cuts production costs by $40 a ton. Ultimately, th will force the integrateds into higher-profit specialty pro ucts such as noncorrosive steels and alloys. There, they battle plastics, aluminum, and ceramics makers.

In short, a decade of protectionism and painful restru turing has bought the U. S. steel industry nothing mo than the chance to compete again. This year may mark t start of a new test: Can the industry meet the mu tougher challenge of clawing its way to the top?

By Stephen Baker in Pittsbur



When Introducing a New Product

A new product can't be just pulled out of a hat. ears of work and illions of dollars e usually poured to its development. But despite is tremendous vestment, the arketing staff ll faces an uphill imb before the oduct is finally tablished in the arketplace.

Setting the age properly is ne way to help new product cceed. Highch marketing ecialist Regis cKinna says in s heralded book *elationship larketing: Successful Strategies r the Age of the ustomer* (Addion-Wesley Publhing, 1991), "It the environent that defines e product. A oduct can't be ewed in isolaon." McKinna oints out that hen a bottle of ine is sold in gourmet food op, it is regard- differently than hen it is sold in discount store.

the sales environment is elegant, the em is perceived by both sales staff and ustomers as a premium product. If the nvironment is mundane, the same em appears to be mediocre.

Although the style of a sales envionment may differ with the price tag of the product, the quality should always be first-rate. Premier auto retailer, Carl Sewell, creates distinctive interiors in all of his dealerships, regardless of sticker prices. Where he sells luxury cars, there are soft carpets and chandeliers that appeal to well-heeled customers. In his showrooms for economy cars, handsome high-tech decor reflects the taste of a younger clientele. Sewell believes that such attention to the selling environment displays a dedication to excellence, both in product and service.

The product launch can be an important first step in creating an appropriate sales environment. A high-priced gala event is not the only possibility. For instance, one publisher with a limited budget drew attention to a new novel by coordinating the launch with a charity dinner—an appropriate environment, since the leading characters were denizens of high society. In another case, when office managers received new mail-order catalogs for premium office supplies, fresh roses were tucked into each package. They emphasized the products' superiority and showed how fast delivery could be.

When a new product launch helps to establish an environment that defines that product, it's worthy of a celebration. It can well be opening the door to the product's success.

CHEMICALS

ALL THE INGREDIENTS OF A COMEBACK

Chemicals should recover—and then some

All the important barometers show clearing weather for chemical makers in 1993. Their sales could rise 8% or so, to about $325 billion, while their costs, with the glaring exception of health care, should rise only moderately. Prices, which have languished for many chemical products for years, could shake off the blahs and jump 5%, thanks in part to healthier demand. In fact, most analysts think shipments could pick up 4.3% this year.

In short, 1993's outlook is the best for chemicals in some time. And if it's right, profits could take off. Based on a survey of its 175 member companies in late fall, the Chemical Manufacturers Assn. (CMA) thinks the industry's aftertax earnings could spurt 13% this year, to a record $26.6 billion. In part, this will be the initial dividend on a painful, multiyear campaign of restructuring and cutting costs and debt, says CMA's trade and economics director, Allen J. Lenz. Some downsizing is still going on. Monsanto Co., for one, took a $325 million aftertax writeoff in 1991 to close six plants and stash away money for environmental cleanups, among other things. Last year, the St. Louis company wrote down an additional $425 million, reflecting the elimination of 3,200 jobs, or 10% of its worldwide work force.

STRONGER DOLLAR? Most of the industry is ahead of Monsanto when it comes to cutting operating costs. On average, they will rise only 3% to 4% this year, predicts the CMA—at a time when other business conditions are improving. At yearend, for instance, the industry's inventory-to-sales ratio stood at 1.36, its lowest level since 1988. At such a level, even a small increase in demand should set plants humming. Already, the industry is operating at 80.9% of capacity, a reasonably profitable level. Analysts think that its operating rate could rise to 83% this year, just a tad below its recent high of 83.9% in 1988.

Anticipating such an upturn, chemical producers plan to increase their research and development spending by about 5%, to $14.7 billion. They will also invest $27 billion in new plant and equipment, an increase of 15.5%, or double last year's increase in capital outlays. Most of the new money will go to minimize plant waste and increase productivity, investments that can improve profits quick

A few chemical executives still are cautious about 19 "The multiplier effect of the downsizing of the defense dustry will continue to hit us this year," predicts A. Nic olas Filippello, chief economist at Monsanto. Others a alarmed at rising health-care expenses (page 95). Chemic companies expect an 11% increase this year in the cost coverage for their 1.1 million employees. That burden compounded by a new accounting rule that will take effe by the end of 1994 and will require all companies to sh the projected cost of retiree health benefits on their balan sheets. To Union Carbide Corp., which has downsiz sharply, this meant taking a one-time charge to net incon in December, of about $360 million after taxes.

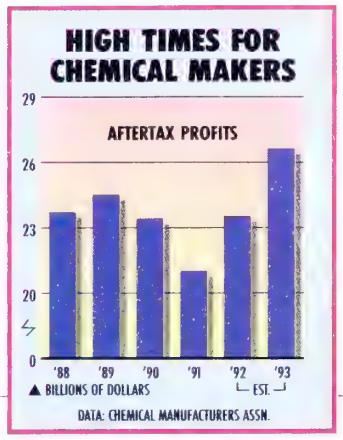
RAMPANT PIRACY. Yet another worry is the possibility o much stronger dollar in 1993. This could strike hard at U. chemical companies' overseas earnings. Dow Chemical C one of the earliest to expand abroad, reaped more than h of its estimated $14.3 billion sales outside the U. S. 1992. Some $4.3 billion of that came from Europe, whe weakening markets have caused surplus cap ity in both plastics and heavy chemicals, su as ethylene. Dow expects some European p ducers to cut capacity this year as the Euro an Community moves toward a single mark Still, U. S.-owned facilities there may have tough time finding business. Some of the may thus seek new outlets in growing m kets in Central and South America.

At the same time, though, large chunks new capacity will come on line in southeaste Asia and the Middle East—and seek new m kets. Thus U. S. chemical exports may rise o about 5%, to $47 billion this year, says Le while imports grow even faster, perhaps 10%, to about $30.5 billion. Lenz says this co cause the U. S. trade surplus in chemicals slip about 6%, to $16.5 billion.

An accord in the General Agreement on T iffs & Trade talks in Geneva would be a ph of course. Presumably, it would lower tari and some nontariff barriers that hurt sales U. S.-made chemicals in Europe. In some are such as agrichemicals, a proposed GATT agre ment to strengthen intellectual property prot tion in Europe could also boost profits. Ther no way to prove it, but some analysts think U. S. chemi companies lose hundreds of millions annually to forei piracy of their proprietary products. Beyond that, p sage of an investment tax credit at home would rev up dustry profits, as would any major infrastructure inve ment by the new Administration. Thousands of chemic from pigments to po urethane foam, are us in construction.

"At Hercules, we pect modest growth revenues this year, a 15% to 20% increase profits," says James Rapp, vice-president investor relations. Tha a prospect most U. S. dustries have been lo ing for since the 1980

By Jane H. Cutaia New York



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FOOD

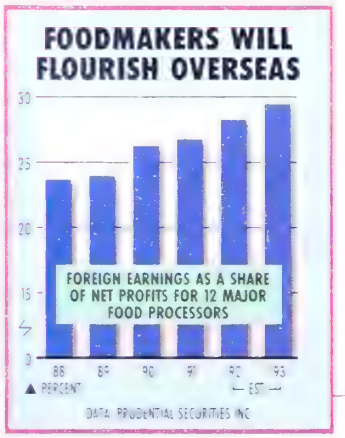
TIGHTER BELTS, WIDER HORIZONS

Processors target fast-growing foreign markets

Last year was a downer for the $267 billion food-processing industry. For the first time in more than a decade, the Standard & Poor's food composite index underperformed the S&P 500. Thanks both to penny-pinching shoppers and intense competitive pressures, Ralston Purina Co. and Borden Inc. had particularly poor showings. Partly as a result, profits rose a measly 6% in 1992 for the 10 food giants tracked by Lawrence Adelman, a senior vice-president at Dean Witter Reynolds Inc. That's a sharp drop from gains in the low 20s just a few years ago—and it may have been an aberration. "It would be foolish to assume we'll return to the go-go '80s" this year, says Richard P. Mayer, CEO of Kraft General Foods. Still, Adelman expects the industry's earnings to jump 14% in 1993. To post such gains, food processors will rely on cost-cutting and international expansions.

Fast-growing markets abroad, especially for branded foods, are the most tantalizing prize. By yearend, overseas operations will kick in an average 29.5% of the total profits of 12 major foodmakers, up six percentage points from 1988, says Prudential Securities Inc. analyst John M. McMillin. Europe is one of the fattest targets. Sara Lee Corp. recently announced that it is negotiating to buy British Petroleum Co.'s European packaged-meat business. And as a follow-up to its 1990 buyout of Swiss candymaker Jacobs Suchard for $3.4 billion, Philip Morris Cos. outbid Hershey Foods Corp. in September to buy Freia Marabou, an Oslo confectionery maker, for $1.5 billion. Hershey is still looking for buys in Europe, says Chairman Richard A. Zimmerman, who adds: "85% of our sales are in the U. S. That's far too much."

SECOND HOME. While Europe attracts the most attention, U.S. foodmakers also are venturing into the Far East and Latin America. Cereal Partners Worldwide, the joint venture between Nestlé and General Mills Inc., entered Mexico, its first non-European market, in August. Campbell Soup Co., which owns one-third of Arnotts Ltd., has made a hostile offer of $590 million for the rest of that Australian biscuit company. And last October, H.J. Heinz Co. snapped up New Zealand's Wattie Ltd., which makes canned fruit and cat food. Raw materials are abundant in New Zealand and cost 15% less than in the U.S. So, the purchase of Wattie "gives us the opportunity to expand from a low-cost base in Asia," says Heinz Senior Vice-President David W. Sculley.



Other foodmakers are aggressively setting up their own operations abroad. Kellogg Co. is putting up new plants in Latvia and India and is near agreement to build a foodmaking facility in China. With per-capita cereal consumption much lower, on average, outside the U. S., these are fertile markets. Kellogg's overseas volume grows 6% to 8% a year—twice the rate at home. "When we weigh it against acquisitions and other things, international expansion has to be our focus," asserts Chairman Arnold G. Langbo.

In the U. S., food processors are focusing primarily on a sweeping overhaul of package-labeling rules. Nearly 6,000 pages of them—governing what, where, and how nutritional and health information must appear on food products—were issued by the Food & Drug Administration in December. The new labels will give definitions for such terms as "light" and "high fiber" and spell out how a product's ingredients, such as fat and sugar percentage, compare with the ideal average in a 2,000-calorie daily diet.

Foodmakers have until May, 1994, to make the switch, but many plan to introduce new packaging this spring. Changing the industry's 257,000 labels will cost about $2 billion, according to Health & Human Services Secretary Dr. Louis Sullivan. Still, food processors are relieved that the rules have been hashed out at last. Says Kraft's Mayer: "It's going to take a lot of the confusion out of the marketplace." Kraft already offers a shopping cart full of low-fat and low-calorie brands, and "with our strength in product development, we're going to have an advantage over the competition," Mayer believes.

That could be important, because U. S. food sales creep up only 2% or so a year, the same as population growth. The battle for market share among packaged-food giants makes it hard to raise prices even in a strong economy—especially since grocers tend to rebel quickly. They do so because of growing competition from other distribution channels—primarily price clubs and discounters.

So cost-cutting will continue. Last October, Nabisco put a one-year freeze on hiring and salaries. With little to show after three years of restructuring, Borden took a third-quarter pretax charge of $642 million to cover 10 plant closings, 3,000 layoffs, and a retreat in snacks.

Such measures highlight a startling change for food processors. Unlike in the 1980s, when savvy marketing was considered key, efficient manufacturing and distribution are now just as vital, says John C. Bierbusse, an analyst at A. G. Edwards Inc. To stay competitive, food processors will have to refine their recipes for all three.

By Lois Therrien in Chicago

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ILLUSTRATIONS BY BLAIR DRAWSON

COMPUTERS

STILL IN TRANSITION, BUT WITH LESS PAIN

A hot new chip may usher in calmer times

A funny thing happened to the computer industry on the way to 1993: Despite a worldwide recession, wrenching restructurings by major manufacturers, severe price pressures, total 1992 revenues exceeded st forecasts, growing about 6%, to $119.6 billion, ac- ding to International Data Corp. That's a big improve- nt over 1991's 4.2% increase, and it has set off little sts of optimism all over the map. The operative word, ugh, is little. No one is betting on a sudden rebound in computer business in 1993—IDC forecasts 5.8% growth otal U. S. revenues. And the word most experts use to cribe this year is the same one as last year: transition. This transition may be different, however. True, as in 2, customers will continue to switch to small computers, e systems will be the big losers, and manufacturers will n work forces. These trends will wreak havoc on older ments of the industry. Witness IBM: The move away n mainframes, which make up 60% of its profits, forced o cut 40,000 jobs in 1992 and announce a $6 billion te-off that will also cover 25,000 more job cuts this r. Yet the key transition in '93 will be much more pos- e: In the next 12 months, innovative technologies will ei- r debut or gain wide acceptance, setting the stage for an that could be as momentous as that ushered in by first PCs a decade ago.

The harbinger of good times is Intel Corp.'s next-gener- n microprocessor. The Pentium, due out in March, is re than just a faster version of the two-year-old 80486, the top of the line. "The Pentium represents the first jor upgrade in processor technology since the 386" in 6, says Bruce Stephens, an IDC analyst.

JOR SHIFT. Pentium-based computers probably won't t to reach a wide market until yearend. But once they the machines are expected to solidify a major shift in way PCs are used. The new wave is multimedia, a bination of video, audio, and computing that lets afici- dos add moving images, sound, and graphics to whatev- hey're tapping into their desktop machines.

ndustry visionaries, led by Apple Computer Inc. Chair- n John Sculley, have been trumpeting multimedia for years. But this year, the price and capabilities may fi- y lure everyday customers. Apple's Mac has audio capa- ties now, and the fea- e is increasingly ndard on 486-based . And if the hardware sn't come with audio, rosoft Corp.'s year- Windows 3.1 soft- re provides it. The ware lets a PC store forward voice mes- es or add sound to uments.

Coming next for PCs the ability to do the ne with TV-quality video. The Pentium is expected to have video capabilities built in, and software companies are already working on video-based programs, which should make PCs more useful and more fun. Imagine recording a video message, storing it, and sending it to co-workers at a set time. And think about the new dimension video could give computer games.

"The significance of multimedia is twofold," says James G. Turner, director of IBM's Premium brand PCs. "You have much more exciting applications, and you attract a much broader base of users." Analysts see video as the key to those millions of customers who have yet to use a PC. Certainly the Macintosh's multimedia abilities helped Apple to become the No. 1 PC company in 1992, surpassing IBM.

Macs, which use a Motorola chip, are just 10% of the market, however. Once the other 90%—the Intel-based PCs—have the same capabilities, analysts expect multimedia's broad appeal to keep all PC sales buzzing. Price cuts, meanwhile, should be a little more orderly in 1993—more like 30% to 40% on older models, vs. last year's 50%. "This is a key transition year to the Pentium and multimedia and at the same time should be a very strong year for sales," says Tim Bajarin, a consultant with Creative Strategies Research International. "You can buy more bang for the buck than we've ever had." IDC predicts that PC unit shipments will rise about 7% in 1993. Chipmakers say those numbers are way too low, based on their microprocessor sales, which some forecasters expect to rise 26% in 1993.

VIDEO IS THE KEY TO REACHING THE MILLIONS WHO HAVE NEVER USED A PC

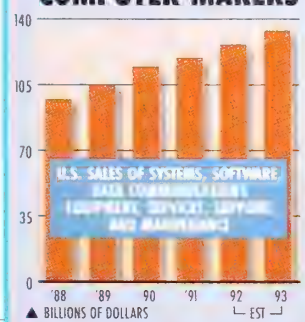
'A BLOCKBUSTER.' The software industry also will see a lot of action this year, thanks to a new operating system, Microsoft's Windows NT. NT is the successor to DOS, the Microsoft basic software that runs Intel-powered PCs. Thus NT should find a wide following when it's introduced, probably in June. Even a possible Federal Trade Commission effort to limit Microsoft's market power isn't expected to hurt NT sales, nor do analysts expect a serious threat from IBM's rival OS/2 system. "The most significant product of 1993 will be Windows NT," declares William Y. Tauscher, president of the Computerland Corp. chain of dealers. "It will be a blockbuster." NT will help drive worldwide software revenues up by 15.4% next year, to $65 billion, IDC predicts.

Mainframes, sadly, won't have it so good: Sales in 1992 were worse than expected, demand remains soft, and heavy discounting continues. IDC expects worldwide mainframe sales to show virtually no growth in 1993. They may equal last year's estimated $27.9 billion, which was off 3.1% from 1991. The outlook for midrange systems—those costing $50,000 to $1 million, such as IBM's AS/400 and Digital Equipment Corp.'s VAX series—isn't much better. IDC thinks those sales will increase only 2%.

So the transition continues to ever cheaper, more powerful PCs. Which means that, despite expected growth this year, the industry is more excited by 1994's prospects. That's when a Pentium-inspired boom could bring back the days of double-digit growth.

By Catherine Arnst in New York

MODEST GAINS FOR COMPUTER MAKERS



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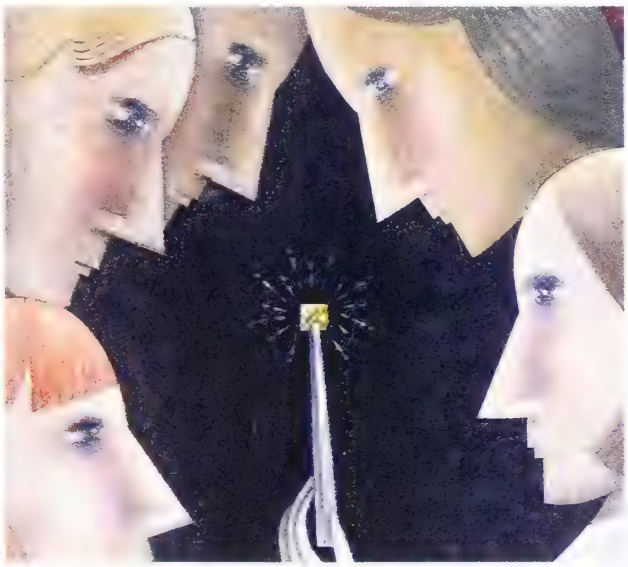
SEMICONDUCTORS

A POWER SURGE IN CHIPS

PC demand is pushing U.S. producers ahead

Unbridled good news: That's something the U. S. semiconductor industry hasn't had much of—until this year. The worldwide market for chips is likely to rise at least 15% in 1993, to about $68 billion, the first double-digit growth since a 31% spurt in 1988. And U. S. companies could do better than the overall average, continuing the trend from last year, when American chip producers managed to edge back ahead of their Japanese archrivals. U. S. chipmakers now command 43.8% of the world market, according to market-watcher VLSI Research Inc.,



while Japan's share has dropped almost five points, to 43.5%.

The upshot is that the U. S. industry is looking to fatten its revenues by at least 20% this year, to about $30 billion. "The U. S. is doing a fantastic job," says John H. Beedle, president of market researcher In-Stat Inc. The domestic book-to-bill ratio, or proportion of new chip orders to current shipments, remained above 1.0 for all of 1992, the best showing since 1987. This boom stems from healthy demand for U. S. products built with chips—especially personal computers. Last year's raging price wars may have clipped PC makers' profits, but plunging prices sent PC unit sales jumping 25%, according to In-Stat. In contrast, Japan's chipmakers rely more on sales to consumer electronics manufacturers, which remain saddled with lackluster demand.

HIGH RIDE. Even if PC prices drop more slowly this year, they're already low enough to draw in new buyers and allow existing customers to upgrade to more powerful machines. This means increased sales of Intel Corp.'s latest crop of microprocessors, the 486 family. As a result, sales at Intel, now the world's largest merchant chipmaker, are expected to grow some 25% this year, to at least $7 billion.

Not every company will have a great year. Advanced M cro Devices Inc., for one, is off to a bumpy start. Clonin Intel's 386 microprocessor helped the No. 5 U. S. chipma er grow 21%, to nearly $1.5 billion, last year. But AM was on the short end of recent court rulings in a lon standing dispute with Intel. That means AMD will have revise its 486 clone, delaying the introduction seve months until midyear—and that could flatten revenues.

Still, many U. S. companies will ride the PC's coattails prosperity. Cirrus Logic Inc. and Brooktree Corp., for exa ple, focus on multimedia chips, which pump up a PC's aud graphics, and video-processing capabilities. Analysts e pect Cirrus' revenues to jump about 35% in 1993, to $3 million. Brooktree could post a 24% gain, to $103 millio

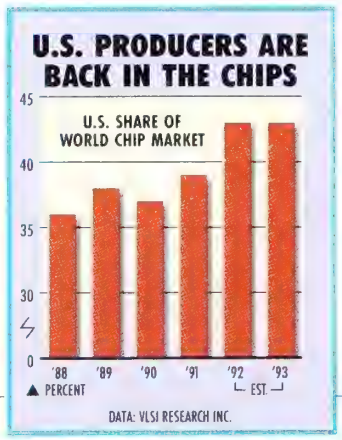
Telecommunications chips are also booming. This flects the growth of networks that link office compute plus the rising popularity of cellular phones and portal computers with modems. That bodes well for such com nies as Motorola Inc. and Zilog Inc. This year, their c businesses should grow about 22% and 20%, respective market researchers say.

New, more powerful software such as Microsoft Corp latest Windows, is also prodding demand for PCs wi more memory. While Japanese producers have cornered t lion's share of the market for workhorse memory chi known as DRAMs, this year's expected surge of 21% wo be enough to offset Japan's sagging chip sales for consum electronics. But the hike in DRAMs will help U. S. memo makers such as Texas Instruments Inc. and Micron Techn ogy Inc. For example, analysts peg Micron's growth 45%, to $741 million, in its fiscal year ending in August.

To be sure, no one is ready to count the Japanese o It's only a matter of time until Japan's economy also rec ers—and then watch out. "The ruggedness of the Ja nese industrial society is awesome," says Intel CEO A drew S. Grove. "The Japanese will be back."

BIG SPENDERS. Now that U. S. companies are back on t though, they won't be so easy to dislodge again. M U. S. chipmakers are concentrating on proprietary desig For the Japanese, competing in design skills will be tou er than outgunning rivals in such commodity chips DRAMs. Indeed, "the Japanese continue to spend most their R&D on DRAMs and commodity chips rather than in vative designs," says Gene Norrett, chief chip-watcher Dataquest Inc.

Moreover, U. S. manufacturers are out-investing Japanese again. Intel, AMD, National Semiconductor, a Motorola are all building chip factories. All told, the U. semiconductor industry will spend $5.2 billion on plants a equipment this year, compared with $4.6 billion for pan, predicts VLSI Research. It will be the second conse tive year that U. S. companies have outspent Japanese vals, after six years trailing them.



Certainly, the go news can't last forev But for now, U. S. ch makers have exchang roles with the Japane "It's hard to see a dow side from here," sa AMD Vice-President B jamin M. Anixter. "Y deserve it," he adds. "I been a while."

By Richard Brandt
San Francisco

TELECOMMUNICATIONS

INTO THE 'UNTETHERED' AGE

g players are rushing to grab wireless markets

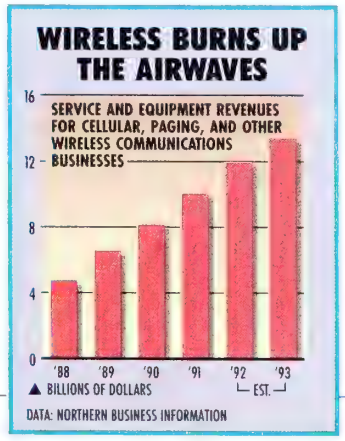
When AT&T and McCaw Cellular said last November that they would join forces, the telecommunications industry gulped. If the pair, giants heir respective markets, do team up, where will that ve smaller players? The answer: scrambling.

Although it's still being negotiated, the deal between erican Telephone & Telegraph Co. and McCaw Cellular nmunications Inc. illustrates a truth that stands out n more this year: Technology is reshaping telecommuni-ons. It's giving birth to new businesses, such as wireless nmunications, which in turn are sapping vitality from ers, such as plain old local phone service. So, companies be redefining themselves. They'll start or acquire busi-ses, form partnerships or break them up. Pacific Telesis up, the regional phone company based in San Francis-announced in December that it would spin off its $1 bil- wireless business—the biggest restructuring of a Baby l since the seven companies were formed in 1984.

The goal of the jockeying is to find room to prosper in a nly competitive industry. The twin mantras are growth efficiency. As in the computer business, prices are ing fast, and costs must come down faster. Even with lthy growth in volume, U. S. revenue from telecommu-ations products and services should tick up a modest % this year, after a 3.5% increase in 1992.

WDED FIELD. Leading the growth will be wireless com-nications. Northern Business Information (NBI), a unit of INESS WEEK publisher McGraw-Hill Inc., predicts that vice and equipment revenue for cellular, paging, wireless a transmission, and other such businesses will hit $13.5 on, up 13% from 1992. AT&T already sells cellular equip-nt. If its new deal goes through, it will spend $3.8 billion a one-third stake in McCaw and an option to assume ing control later. McCaw's cellular service will be mar-ed exclusively under AT&T's powerful brand name.

AT&T's rivals also have wireless strategies. Sprint Corp., No. 3 long-distance carrier, is completing its acquisition Centel Corp., which owns substantial cellular properties well as local phone companies. No. 2 MCI Communications rp. is hoping that the Federal Communications Com-ssion will award it and some partners a national license provide a new kind of wireless communication called Per-al Communications vice. The FCC plans ssue licenses by early 4 for PCS—a system pocket-size wireless nes that costs less to than conventional ular phones and works shorter distances. Un-tunately for MCI, near-every major phone npany wants a piece PCS, which is expected have wide customer peal. Says Charles R. Lee, chairman of GTE Corp.: "People love being untethered."



The traditional wired phone business isn't dead, of course. NBI projects that the economic recovery will contribute to healthy growth of 4.8% in long-distance revenue, to $59.1 billion, up from 4.6% growth in 1992. Analysts project earnings growth of roughly 11% for AT&T, 15% for MCI, and 14% for Sprint. The most hotly contested long-distance sector will be 800-number services, which should grow about 6%, to $6 billion. The reason: Around May, new switch software will allow owners of 800 numbers to change long-distance carriers without having to get a new number. That creates options for hotels, airlines, and others that heavily publicize 800 numbers to attract customers. AT&T has the most to lose because it's the oldest and biggest 800-number provider, with a market share estimated by others at perhaps 75%. Still, it's fighting back with hard-hitting advertising and price cuts.

SLOW BOMB. The weakling of the telecom service business in 1993 looks to be local phone service, which usually gets less of a cyclical lift from economic recovery. Revenue should grow a slight 3%, to $96.6 billion, the same increase as in 1992, estimates NBI's Courtney Munroe. By holding the line on costs, the Baby Bells and GTE should be able to achieve average earnings growth of around 7.5%, es-

timates Daniel P. Reingold of Morgan Stanley & Co. But competition, one of the biggest worries of the Baby Bells, is arising, first, from new fiber-optic networks and, next, from cable-TV systems. Says Southwestern Bell Corp. Chairman Edward E. Whitacre Jr.: "You won't see any atom bomb in '93, in my judgment. But it's coming. It's going to come big time."

As local phone companies cinch up their belts, they're squeezing the companies that sell them equipment. In 1993, sales of central-office switches to U. S. phone companies should dip nearly 10%, to $4.98 billion, their first dip below the $5 billion mark since 1984, says NBI analyst Michael Arellano. President Michael J. Birck of Tellabs Inc., a Lisle (Ill.) transmission-gear supplier, thinks phone companies aren't sure where technology is headed: "When people are uneasy, they don't spend a lot of money."

Overall, 1993 looks to be a reasonably good year for telecommunications, with a reviving economy and a new Administration committed to improving the nation's communications infrastructure. But within that outlook are plenty of ups and downs. Companies that reshape their businesses as fast as the changes in technology require will win out.

PHARMACEUTICALS

SWALLOWING A BITTER PILL

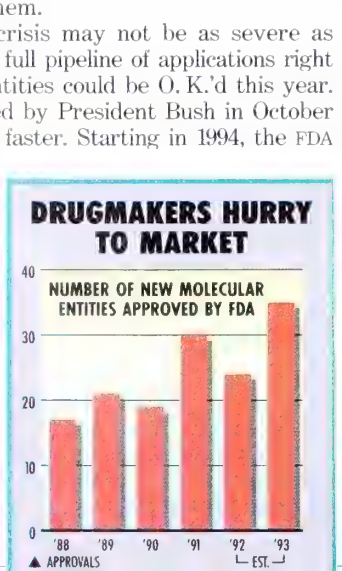
Curbing health-care costs may squeeze profits

The high-flying pharmaceutical industry may get its wings clipped this year. U. S. drug companies still lead the world in research and development and rule its largest drug market. But they'll feel pressure on profits, as several major drugs lose patent protection. Prices could get pinched, too, as President-elect Clinton starts his drive against soaring health-care costs. Analysts figure the industry's aftertax margins could drop to 13%—one percentage point below last year's level and down six points from 1991—even as sales rise 10%, to about $82.5 billion.

Normally, drug companies feel a squeeze on profits because of new-drug marketing expenses or a bulge in development costs. But this year, there's more than that at work. Congress may again consider canceling tax breaks for drugs produced in Puerto Rico. There's also talk in Washington of requiring more drug price discounts for big buyers. Drugmakers argue that their products account for just 5¢ of the health-care dollar, but they're moving anyway to avoid regulation. Seven major companies that together produce a third of all U. S.-made pharmaceuticals—including Merck & Co. and Pfizer Inc.—say they'll voluntarily restrain price increases to the overall inflation rate.

FULL PIPE. The problem is that drug manufacturers need a strong cash flow to support R&D—which will cost $12 billion this year. And healthy prices have always been the key. If prices are constrained, companies without a broad product line or a flow of winners could be in trouble. One is Warner-Lambert Co., whose Lopid, an anticholesterol drug, drops off patent this month. Finding a way to make up for the $500 million-plus Lopid has been contributing to sales each year will be tough—and expensive. Most analysts now figure that the average cost of developing and launching a new drug is nearly $275 million. And only 3 of every 10 drugs that get to market recover the investment that companies have made in them.

Overall, the industry's crisis may not be as severe as that sounds. The FDA has a full pipeline of applications right now: Some 35 new drug entities could be O. K.'d this year. After that, legislation signed by President Bush in October should get drugs to market faster. Starting in 1994, the FDA is due to use higher application fees to add reviewers and update its information systems. This should shorten the time needed to test a drug's effectiveness and safety from 32 months now to 12 months by 1997. For drugs that battle AIDS and cancer, approval time will be halved, to six months.



These changes could add some $65 million in earnings per drug: Faster approval means a product will be on the market for more of its 17 years under patent. Still, this may not offset all the price squeeze. So, even Merck has set up a generic-drug unit, West Point Pharma, to sell clones of its brand-name products as they lose patent protection. Early this year, Dolobid, which treats arthritis, should become the first Merck drug to go that route.

'WORRISOME.' Drugmakers are trying other strategies as well. Bristol-Myers Squibb Co. is one of several companies selling off low-profit, nondrug operations. American Cyanamid Co. is buying into a biotech startup. In December, it said it will acquire 54% of Immunex Corp. in Seattle for $740 million in cash. Cyanamid will merge the cancer-drug operations of its Lederle Laboratories into Immunex, whose key product is a white-blood-cell stimulant called Leukine. The deal will make Cyanamid the No. 2 U. S. maker of cancer drugs, behind Bristol-Myers.

As they ponder leaner times, drugmakers also are cutting costs. This year, Bristol-Myers will cut its work force

by 6%, or 2,200 employees. In late 1992, Syntex Corp. issued furloughs, its first in a decade. So far, most such moves involve administrative and marketing employees. But "it looks as if downsizing will be the name of the game," says PaineWebber Inc. analyst Ronald Nordman. "Head counts will have to be reduced." Marketing alliances may also multiply, to save money and boost efficiency: Merck has such deals with Du Pont, Johnson & Johnson, and Connaught Laboratories. Even the industry's sacrosanct research is coming under scrutiny. If that gets cut too much, drug development could suffer. But most executives think the cost-cutting has been done prudently—so far.

"Some worrisome things are on the horizon," says Hal D. Eastman, associate dean of the Graduate School of Management at Rutgers University in New Jersey. Still, an analysis he has just completed for the state of New Jersey, where 25% of all U. S.-made drugs are produced, leaves him optimistic. By mid-decade, he believes, drugmakers will have adjusted to lower prices and gotten margins moving up once more. If he's right, pharmaceuticals may soon again become the most vibrant of U. S. industries.

By Jane H. Cutaia in New York, with bureau reports

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NATURAL RESOURCES

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ILLUSTRATIONS BY BRIAN CRONIN

ENERGY

NOW, THEY'RE COOKING WITH GAS

The industry is set to rebound—somewhat

he battered U. S. oil industry should get some relief in 1993. There may not be a gusher of profits, at least by historical standards. But the industry may benefit higher natural-gas prices, improved refinery mar-, and considerable savings from already announced y cost-cutting measures. As a result, operating profits 4 major U. S. oil companies will climb about 26% this , to $15.4 billion, predicts Frederick P. Leuffer, an an- at Bear Stearns & Co. This represents a strong re- d from last year's 17% decline.

ne turnaround would be more pronounced if an over- ly of oil wasn't dampening prices worldwide. The con- us among analysts is that benchmark West Texas rmediate crude should average about $21 per barrel this , about the same as in 1992. That's largely because bbling OPEC members are unlikely to rein in production gh to force prices up. In fact, many OPEC watchers ex- Iraq, whose exports are now banned by U. N. sanc- s, to be allowed to start selling some oil later this to finance emergency purchases of food and medicine. struggling nations of the former Soviet Union could off- that increase a bit. Their exports may drop slightly last year's 2 million barrels a day.

STING BUBBLES. Plentiful supplies aside, "the real bad s is demand," says Pierre Terzian, head of Paris consul- s Petrostrategies. Houston consulting firm Purvin & z Inc. predicts that world oil demand next year will be t flat at 68.3 million barrels a day, mainly because k economies in many countries are holding down oil s. As the U. S. economy heats up, by contrast, domes- emand is projected to rise 2.4%, to 17.3 million barrels day.

he outlook for natural gas is brighter. The so-called gas ple, or excess supply that has dogged the industry for cade, may be near the bursting point. In recent years, essed prices and better prospects for major finds over- have caused most producers to cut domestic drilling. result, only 70% of U. S. gas production was replaced 91, and only 60% last year, estimates analyst M. Diane acciolo of Kidder, Peabody & Co. Consumption should this year by 4%, the rate at which it has grown on av- e since 1986, while U. S. production climbs less than As a result, "we're e to a balance of sup- and demand" for the time in nine years, s Thomas H. Cruik- nk, chairman of oil- l-services giant Halli- on Co.

as prices shouldn't rocket, however— igh a severe winter d lead to temporary eases. Most analysts ect U. S. spot prices verage $1.75 to $1.85 per thousand cubic feet this year, up from an average of about $1.65 in 1992 and a low last February of less than $1. "I certainly hope that $1 gas is a thing of the past," says James L. Pate, CEO of Pennzoil Co.

As the year progresses, higher and less volatile prices should spur drilling, mainly by independents. Oil-field-services giant Baker Hughes Inc. estimates that the average number of U. S. drilling rigs in action will climb to 765, up 7% from 1992 but still down from 860 in 1991. George P. Mitchell, chairman of Houston's Mitchell Energy & Development Corp., says it would take sustained gas prices of over $2.50 per thousand cubic feet to really boost drilling. Still, Mitchell Energy will boost U. S. drilling by about 30% this year.

In contrast, major oil companies such as Texaco, Mobil, and Chevron won't spend a lot more on domestic exploration. They're looking overseas, where drilling costs are lower, environmental rules less stringent, and chances of a big find better. Nearly 60% of the $2.8 billion that Chevron poured into exploration and production last year was spent abroad. Says Dan F. Smith, vice-president for corporate planning at Atlantic Richfield Co.: "As a big company, we tend to do better [financially] with larger fields where we can bring technological advantages to bear."

FINALLY, OIL PRODUCERS MAY BE ABLE TO EASE UP ON THEIR FURIOUS COST-CUTTING

In fact, the majors are unloading properties at home. Arco sold about $600 million worth of U. S. reserves last year, resulting in deals with Anadarko Petroleum Corp., Snyder Oil Corp., and others, and it plans to sell more in 1993. All told, some analysts estimate, $15 billion worth of properties are on the block. But that doesn't guarantee bargain-basement deals, because higher gas prices may ease pressures to sell. "We're going to see an end to distress sales," predicts Marion B. Stewart, a vice-president at National Economic Research Associates in White Plains, N.Y.

Despite the money they're raising by selling reserves, the majors will keep a tight grip on their wallets. That's largely because they face a huge tab—estimated at $15 billion by 1995—for converting U. S. refineries to make federally mandated, environmentally safer reformulated gasoline. Beyond that, weak demand and overproduction of gasoline pushed many refineries into a loss last year after five years of modest profits, Purvin & Gertz estimates.

With a strengthening U. S. economy and continued consolidation of refining capacity, "there's a good chance that [refinery] margins in general will improve" this year, says Roger R. Hemminghaus, chairman of refiner Diamond Shamrock Inc. He estimates that 3% of U. S. refining capacity was closed last year, and an additional 2% may be shut this year.

From here on out, oil producers may be able to ease up on their furious cost-cutting. In 1992, the industry cut its head count by 72,000, or about 5%, according to the American Petroleum Institute. "I think we've got most of [the restructuring] behind us," says C. J. Silas, chairman of Phillips Petroleum Co. So, 1993 may be the year the industry starts pumping steady profits again.

By Wendy Zellner in Houston

AGRICULTURE

THE GOOD EARTH LIVES UP TO ITS NAME

Farmers could reap record harvests and profits

For U. S. farmers, 1993 promises a cornucopia of goodies. Domestic markets should be strong and so should exports. Farm profits could even reach near-record levels. The only clouds hanging over an otherwise fair-weather forecast are uncertainties over trade agreements and the policies of the Clinton Administration.

Barring a thunderstorm over politics or trade, farmers' cash income in '93 could approach 1990's record of $61.3 billion, says the Agriculture Dept. Plentiful supplies of grains, meats, fruits, and vegetables will mean some price weakness, and overall U. S. food prices probably won't climb more than 4%. But farm incomes won't suffer much, because rising crop-support payments are projected to drive up government subsidies by 40%, to $12 billion. Farm debt is also way down, and lower interest rates mean interest will eat up just 17% of farmers' net cash income this year, vs. 23% in 1992.

On top of all that, exports will come close to matching the 1981 record of $43.8 billion, Agriculture economists predict. That's partly because a threatened agricultural war with Europe seems to have been averted. A breakthrough in General Agreement on Tariffs & Trade negotiations last November apparently settled the main issues in the dispute. And though French farmers still are fuming, U. S. analysts believe the agreements will hold.

SOYBEAN SURPLUS. The North American Free Trade Agreement promises a further boost. Mexico has become the third-largest U. S. agricultural export market: It buys huge quantities of grain, oilseed, and meat. The value of agricultural exports to Mexico, which have been growing at more than 20% per year, were projected to reach $4.1 billion this year even without NAFTA. And if the Senate ratifies NAFTA intact, says Alan Barkema, senior economist at the Federal Reserve Bank of Kansas City, south-of-the-border shipments of such crops as corn and wheat will soar.

U. S. farmers need big foreign markets because they have a rich bounty to sell. The record 9.3 billion bushel U. S. corn crop harv ed last year was up 1.8 billion bushels from 1991 and co grow again in 1993, says the Agriculture Dept. This ye projected soybean crop is expected to be slightly above s year's record 2.2 billion bushels.

Production is busting out all over in meat supplies, to Pork output is expected to climb 3% above 1992's recor 17.2 billion pounds, and pork exports should jump by 1 to 460 million pounds. The nation's cattle herd, at 102 lion head last January, could rise to 108 million by 1997 U. S. farmers take advantage of lower domestic feed p es and import cheap Mexican and Canadian feeder cattle slaughter in the U. S. Beef exports should climb by 10% year, thanks in part to a reduction in Japanese imp tariffs from 60% to 50%.

Still, there are areas of concern. Cotton production is pected to fall 8% this year, to 16.2 million bales, largely cause planted acreage is declining after last year's bum crop. And the shake among dairy farms will tinue. The number of s farms, which has shr more than 30% in past five years to fe than 180,000, will again this year. the nation's herd 9.9 million milk co which shrank 2% 1992, will get e smaller.

RED SCARE. On trade front, the pute with Eur could always re nite. And Russia Eastern Europe, jor markets for ports in recent years, are nearly broke. Russia recently faulted on a $10.9 million interest payment on grain lo guaranteed by Washington, and Eastern European p chases last year were held down by tight finances the This has exporters worried. "The principal determin of U. S. grain flows to the former Soviet Union is availability of U. S. government financing," frets Ste A. McCoy, president of the North American Export G Assn. Wheat exports to the former Soviet Union in may fall 25% from 1992 levels. And cash-strapped Chin expected to cut its purchases by 37%.

The degree of prosperity down on the farm will dep heavily on how the Clinton Administration responds to these challenges. Putting aside the availability of ov seas loans, "farm programs are extremely vulnerab warns Representative Charles W. Stenholm (D-Tex.). T size and entitlement nature make them prime candida for spending cuts, Stenholm adds. Atop the watch ethanol, a corn byproduct that was subsidized under P ident Bush and consumed 5% of the 1992 corn crop.

Given the uncertainties, "the cautious buying attitude North American farmers are expected to continue in " says Deere & Co. Chairman Hans W. Becherer. That me another slow year for farm suppliers: Sales of inorganic tilizer are expected to fall about 4%, as are those of eq ment made by such companies as Deere and Tenneco I J. I. Case. Even in a bountiful year, it seems, many farm will maintain their rock-ribbed conservatism.

By David Greising in Chi

FARM EXPORTS REMAIN BOUNTIFUL

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FOREST PRODUCTS

TIMBER COULD GO THROUGH THE ROOF

And that's good news for both wood and paper

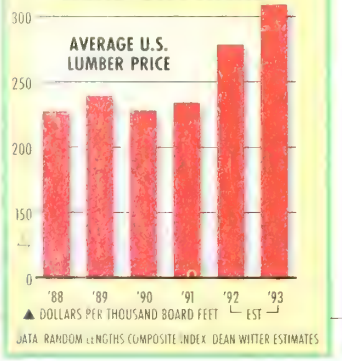
For those with acres of timber to sell, 1992 was a dream come true, but for the papermaking end of the forest-products business, it was a nightmare. Lumber prices rose 20% last year, while prices of almost all paper were as limp as the struggling economy. As a result, earnings from wood operations for the 19 largest companies more than doubled, while paper divisions suffered a 21% decline in profits, says Evadna Lynn, a Dean Witter Reynolds analyst.

This year should be better for both sectors of the $200 billion industry. Wood prices, already at record highs, should rise again, because production is lagging behind demand. Wood profits could climb as much as 43% in 1993, says Lynn. Paper profits will rise more modestly—by about 19%.

SUPPLY GAP. It is the Northern spotted owl that is making Big Timber stand tall. Ever since the bird was declared an endangered species in mid-1990, industry executives have issued dire warnings that reduced harvests would constrain supply. The recession kept that from happening for a while. Then, an uptick in housing starts last year, plus Hurricane Andrew, stirred up demand for wood.

The price of 1,000 board-feet of plywood rose from $243 in January to a record $352 in September before settling at about $338 on Dec. 18, says the trade publication *Random Lengths*. Framing-lumber prices zoomed from $241 in January to $318 on Dec. 18. Demand for wood is apt to grow even more this year, with housing starts rising to at least 1.3 million from about 1.2 million in 1992. And the mills will have trouble meeting it. A court injunction has stopped federal timber sales in the spotted owl regions of the Northwest. At current rates, logging will stop there by August, says Alberto Goetzl, a consultant to the National Forest Products Assn.

Optimists in the industry hope President-elect Bill Clinton will make good on his promise to convene a timber summit early this year and ask Congress to let logging restart on a limited basis. Even so, Western production is likely to fall to 18.2 billion board feet in 1993, or 24% below its 1987 peak, says the Western Wood Products Assn. Suppliers elsewhere can't make up the difference. Southeast production is already near capacity, and Canada plans to cut wood harvesting because of environmental concerns. T beneficiaries will be major timber owners, such as We haeuser, Louisiana-Pacific, and Georgia-Pacific. The bige losers will be independent, privately owned mills tha d pend on public timber. Many closed in 1992.



Papermakers have been through agony, too: Their was nearly as bad as 1991. "It was a double-dip [reces in our industry," says Robert C. Butler, chief financial cer at International Paper Co. After an investment bi the U. S. is the world's lowest-cost producer: Exports 7% in the first nine months of 1992, despite weak over economies. But though many companies have delaye pansion plans, plant operating rates, now at 90%, are below the 93% level needed to strengthen prices. "It' ing to take several years of economic growth to gene enough demand to bring that business back to resp able profitability," says A. D. "I Correll, president Georgia-Pacific C which lost $32 milli 1992's first nine mo

Despite all this, outlook is brighte for makers of linerb used in corrugated es. They tried twi 1992 to raise prices failed, chiefly becau high inventories. this year, plants ar 95% of capacity, price increase may s

Prices may also for newsprint and coated paper use magazines. Both are at such low levels analysts see no direc but up, especially if vertising resurges. N print prices were so pressed last August publishers, fearing n mill closures, encourag 5% increase. Even so, analysts sa to 6% of North American capacity has closed since 19

NOT BRIGHT WHITE. Some products are still in bad shape pecially pulp and uncoated white paper. Prices for pulp, raw material in papermaking, are always volatile dropped sharply in December when the currencies of den and Finland, major pulp producers, fell against the lar. Pessimists think that this year, pulp's price could below $490 a ton, the low it hit in 1991. White paper in offices, once thought to be the industry's bright spo also suffering from too much capacity: Prices have f more than 30% since their highs in early 1989. And th International Paper has said it will close one money-lo mill, Champion International Corp. and Willamette In tries Inc. each are set to open a new plant this year.

The size of this year's price increases for linerbo newsprint, coated paper, and other grades will depen the strength of the economy. But "when things star snap, they snap back hard in this industry," says Dillon, a paper analyst at Salomon Brothers Inc. In sh after three years in the doldrums, papermakers are loo for a merrier 1993.

By Dori Jones Yang in Se

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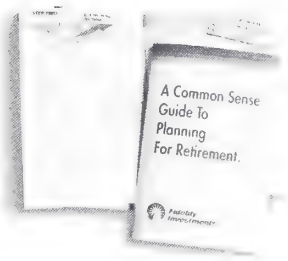

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ILLUSTRATIONS BY JOHN KLEBER

RETAILING

THE BROWSERS ARE FINALLY BUYING

Confidence is up, and so is income

llen Questrom is getting reacquainted with an old emotion: hope. "Everybody's a little more optimistic," says Questrom, CEO of Federated Department es Inc., the $7 billion giant that emerged from bankcy in 1992. "Our salespeople tell us the consumer feels er. And we feel better than we did six months ago." trom's observations echo those of most retailers, who ct sales growth of 6.5% in 1993, says David Kelly, a r economist at Boston Co. That would match 1992's inse, which was surprisingly strong thanks to a robust h quarter of holiday spending.

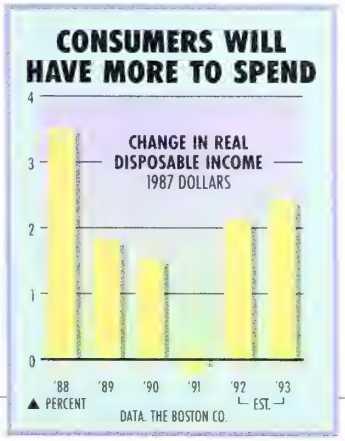
ich projections reflect several converging factors. The omy is recovering, inflation remains low, and consumer dence is rising. Discretionary income is up, too, partecause homeowners have been refinancing their mortes at lower interest rates. "That extra $200 or so that le get each month is going to go into spending," esties Jared E. Hazelton, director of the Center for Busi- & Economic Analysis at Texas A&M University.

EST UPTURN. So is the retail slump over after two ble years of less than 2% annual sales growth? Maybe hough most retailers and analysts still sound a note of on. "There are no substantive job-growth projections," s Janet Mangano, a retail analyst at Burnham Secur- Inc. So, "there still isn't confirmation that the recovery pending will be robust." Inflation-adjusted consumer ding will certainly be healthier than in 1991, when it 0.6%. But Boston Co.'s Kelly expects only a modest up- of 2.5% in 1993, on top of a 2.1% uptick in 1992.

ill, such trends will leave stores with decent pros-s. Tactical Retail Solutions, a retail consulting firm in York, predicts that discounters such as Target Stores Kmart will record above-average sales gains of 8% 0%, on top of similar gains in 1992. For department es, which sell pricier items than the mass merchandis- analysts estimate sales increases of 4% to 6% in 1993, oughly 4% in 1992.

ains that want to boost profits will still have to con- costs. Retailers have shut down enough stores to cut y jobs—620,000 from June, 1990, to November, 1992. many chains are installing labor-saving automation. rated, for example, has combined back-office operations set up new invento- ontrol systems. As a lt, Salomon Brothers analyst Jeffrey M. er says its operating gins will grow from in 1991 to 6.8% in , on an estimated sales increase.

he new efficiencies crucial, since pricing e key to competing discounters. Take gel Inc., the catalog pany with an estimated $1.9 billion in 1992 sales. Spiegel suffered a surprising 3% drop in 1991 revenues. So for its 1992 catalogs, it adopted a version of what retailers call everyday low pricing. Spiegel's new "Best Bets" program now aggressively prices key items in every category, from bedspreads to blouses, and analysts think its sales rose 12% in 1992 and will jump 14% this year. For the entire $65 billion catalog industry, look for roughly 6% growth in 1993, says mail-order consultant Arnold Fishman of Marketing Logistics in Highland Park, Ill. That will be up from 4% in 1992.



Another price-conscious strategy is to build category-killer stores—giant stores featuring a wide selection of items in a single category such as toys or hardware. This lets retailers demand lower prices from suppliers, which is central to Kmart Corp.'s plan for competing with Wal-Mart Stores Inc., the market leader with $55 billion in sales. Kmart, now at $38 billion, has acquired Borders, a Midwest chain of huge, low-price bookstores. And its Sports Authority superstores are grabbing share in the fragmented athletic-gear business. Jack Smith, CEO of the $420 million Sports Authority Div., expects to add 25 new stores and increase same-store sales 10% this year while earning $20 million in operating income, well up from an estimated $9 million in 1992. Says Smith: "There are things you deprive yourself of when times are tough, but sports isn't one of them."

STORE CLOSINGS CUT 620,000 JOBS FROM JUNE, 1990, TO NOVEMBER, 1992

Middle-aged consumers are also expected to spend more on couch-potato activities. "We've seen a pickup in big-ticket TVs compared to the past two years," says Herbert J. Zarkin, president of B. J.'s Wholesale Club, a $1.8 billion division of Waban Inc. "This year, home-oriented merchandise is going to outstrip apparel sales," adds Kurt Barnard, president of retail consultants Kurt Barnard Associates. "People are having families and finding it's cheaper to entertain and play at home."

BIG TICKETS. Three specialty-store chains that focus on relatively inexpensive home items—furniture retailer Bombay, housewares chain Lechters, and Bed Bath & Beyond—posted sales gains of 20% or more last year. Robert E. M. Nourse, CEO of Bombay Co., says increasing numbers of people are working at home, which also boosts the home-item business. No. 3 retailer Sears, Roebuck & Co. reports a similar trend. "Our big-ticket businesses—home appliances, home entertainment, home office equipment, and furniture—are all doing well," says Matt Howard, senior vice-president of marketing at Sears Merchandise Group.

Even retailers of some pricier home items say they're noting brisk sales growth at last. "All of our stores have better increases in home than apparel right now," says Federated's Questrom. Sales of furniture, housewares, electronics, and china at Federated grew roughly 8% last year, while overall comparable store sales rose 4%.

There's one other sign of strength: Cataloger Eddie Bauer Inc., for one, reports surprisingly strong demand for its various packages of flower bulbs, which sell for $8 to $95. If people are springing for stuff like that, it could be a sign that retail sales will blossom in 1993.

By Laura Zinn and Christopher Power in New York

WHOLESALING

ON A FAST BOAT TO ANYWHERE

As U.S. margins shrink, distributors head abroad

After tasting lean fare in 1992, when it had to cut prices to hold on to its grocery-store customers, food distributor Fleming Cos. should do better in 1993. Its $13 billion in sales may increase 4% this year, vs. no growth in 1992, analysts say. Yet the Oklahoma City titan is reacting differently to this recovery than it has to past upturns: To ensure growth in good times and bad, it has decided to expand abroad. To build ties overseas, it is licensing distribution system software to Japanese and Korean distributors. And in early December, with a Mexican partner, it opened the first of 50 planned supermarkets south of the border. "In foreign countries, some opportunities are greater than in the U. S., where most major cities are overstored," says Fleming Senior Vice-President Robert G. Dolan Jr.

Four lackluster years in a row, punctuated by consolidation and a bank-credit crunch, have persuaded many of the the nation's 300,000 wholesalers that their business has changed forever. Influenced by slow growth at home and such developments as the pending North American Free Trade Agreement, distributors of everything from food to lab gear are deciding to do more business abroad. By the year 2000, predicts the National Association of Wholesaler-Distributors (NAW), wholesalers will generate 18% of their revenues outside the U. S., nearly double the current share. The industry needs a boost: The NAW also predicts that gross profits of merchant wholesalers may grow just under 4% this year, to $372.2 billion. Although that's better than last year's 2.8% gain, it's below the industry's 5%-plus annual growth of the late 1980s.

LOCAL GUIDANCE. The move to foreign markets may be the cure—if distributors get a lot of local help. Fleming averted a major gaffe in Mexico when its advisers there counseled it not to name its chain "Super Mercado." That translates to "supermarket," but it has a bargain-basement connotation for many Mexicans. So the company switched to the English "SuperMart," a more upscale word.

Since wholesalers fundamentally are locally oriented, many hire foreign nationals to run their businesses abroad. McKesson Corp., the big drug wholesaler, counts almost entirely on Canadians to manage its three-year-old operation north of the border. The locals better understand the tight regulations Canada applies to pharmaceuticals—including prices. In 1991, figuring that antitrust concerns precluded it from making U. S. acquisitions, McKesson bought out its Canadian partner, Provigo Inc. This year, McKesson expects about $1.5 billion, or 13%, of its $11.5 billion in sales to co from Canada.

Some foreign expansion is being driven by custome VWR Corp. in West Chester, Pa., a $500 million distribu of laboratory gear, is now the third-largest wholesaler such equipment in Canada, largely because customers su as Du Pont Co. demanded that VWR sell there. Big buy want to deal with as few suppliers as possible, partly cause it's cheaper and less time-consuming to school jus few in corporate quality programs. "They want to deal n an Americas-wide basis," says VWR CEO Jerrold B. Har

BEACHHEAD. Even some wholesalers who expect rob gains at home in '93 are eager to go overseas. McLane C a $4.8 billion Wal-Mart Stores Inc. unit in Temple, Tex., grown at a double-digit pace for years by selling to conv ience stores such as 7-Eleven. This year, it will also st supplying British outlets with candy and food from a wa house in Rushden, England. "The development of re convenience stores in other countries is about 15 to years behind the U. S.," says a McLane vice-preside Robert Hudspeth, who wants to help close the gap.

Distributors who shun foreign markets may find it h to grow this year. While the recovery will help those w sell general merchandise and food, those that supply bu ers may not do especially well. Citing a "downsizing o the construction industry," Lloyd U. Noland III, presiden $400 million Noland Co. in Newport News, Va., doe expect the go-go days of the 1980s to return anytime s Yet he would still rather try to win market share from U. S. competitors than venture abroad.

The domestic market will no doubt remain No. 1 American wholesalers, partly because overseas expansi expensive. Either way, however, U. S. distributors end up competing with foreign wholesalers. In Novem for instance, Britain's Wolseley PLC snapped up anothe a series of small plumbing houses—U. S. Supply Co Kansas City, with $50 million in sales. Wolseley now about $1.7 billion a year in U. S. sales of plumbing and struction supplies. "It's real," says VWR's Harris. "We' a global market now."

By Joseph Weber in Philadel

HEALTH CARE

THE FINAL OPTION— RADICAL SURGERY

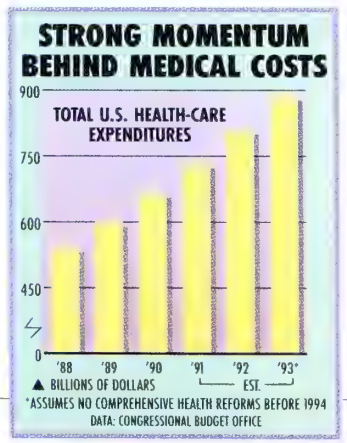
But the battle over reform will be furious

fter years of idle talk, momentum is finally building for health-care reform. President-elect Bill Clinton has promised to announce a proposal in his first 100 , partly because an urgent message has sunk in: "The of doing nothing is enormous," says Judith Feder, heads Clinton's health-care transition team. nation's health-care bill is expected to rise her 10% this year, to $889 billion—up 63% e 1988. That's a huge burden on employ- who pay 51.7% of the total, and a major acle to cutting the bloated federal budget Washington, which shoulders 33.7%. For y states, which chip in 14.4% for medi- , medicaid, and such, it's a near-disaster. he details of Clinton's package haven't decided. But key ideas include a basic ben- package for every citizen, a national spending et for health care, and, to make it all work, ething called managed competition. Under it, new si-public groups would negotiate with providers to low-cost care for everyone—from individuals to cor- tions. "The battle is not over whether we will have aged competition," says Representative Jim Cooper enn.), who will be influential in passing such a pro- n, "but over who gets to define it." In 1993, debate, ulation, and lobbying over that will preoccupy the th-care industry.

MANAGEMENT. Health insurers apparently now see re- as inevitable. "Traditional health insurance is dead," Thomas Kinser, chief operating officer of Blue Cross & Shield Assn. "It doesn't work, and it isn't afford- ." The Health Insurance Association of America, repre- ing 270 insurers, has endorsed some Clinton ideas, as coverage for all Americans.

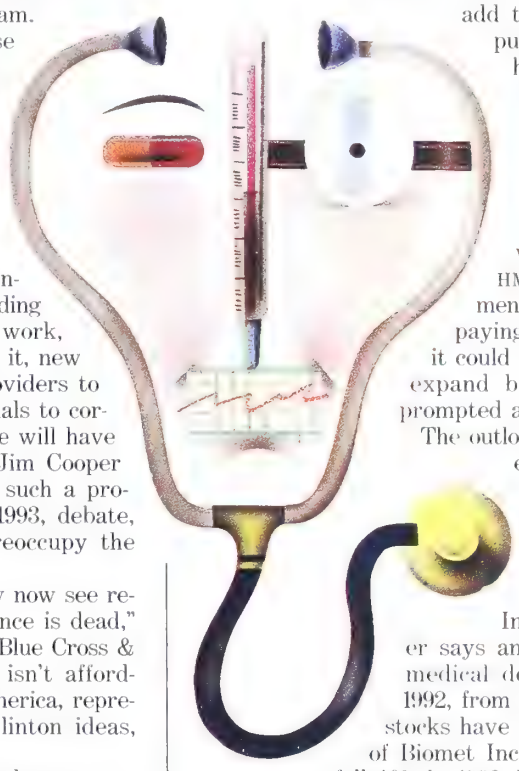
ven so, the coming debate will be furious because re- will help some parts of the industry and hurt others. naged-care groups, including health maintenance organ- ions and some large insurers, already are growing rap- and should get a further boost. The number of Amer- s enrolled in HMOs may rise 7% this year, to 45 million, from 28.6 million in 1987. That's a formula for prosper- Merrill Lynch analyst L. E. Olwell estimates that earn- s at U. S. Healthcare , an HMO in the North- t, jumped 23% last r on a 22% increase in enues.

or the first time, in , most workers in size and large compa- s now belong to man- d-care plans, accord- to a recent KPMG Peat rwick survey. A study Health Care Invest- nt Analysts Inc. shows y: Hospitals in markets with high managed-care enrollment charge up to 32% less for the same services than those elsewhere. Burkett W. Huey Jr., benefits director for Pepsico Inc., says his company kept growth in medical costs under 5% last year with managed care, and he expects no increase this year.



Hospital-supply companies expect to do well this year—with reform or not. The U. S. hospitalization rate, which fell during the recession as patients postponed elective surgeries, is rising again. The number of surgical procedures climbed 2.7% in the first six months of 1992. And that boosts business, since some 70% of supplies are used in connection with operations. Merrill Lynch's Olwell predicts a 36% earnings increase for U. S. Surgical Corp. this year and a 17% jump for Johnson & Johnson.

Hospitals won't share in this windfall, however. They soak up 39¢ of every health dollar, so they're bound to be among the targets of reformers. This will add to the troubles at some big public chains. Already, analysts have lowered their earnings estimates for National Medical Enterprises Inc. after a drop-off in admissions to its psychiatric facilities and investigations of alleged billing fraud. Humana Inc., which plans to split into an HMO and a hospital-management company in March, stopped paying dividends late last year so it could divert nearly $150 million to expand both businesses. The news prompted a 17% plunge in its stock.



The outlook isn't rosy, either, for makers of medical devices. Years of lax regulation have ended. And the industry's fat gross margins, which range up to 75%, are an easy mark. Dain Bosworth Inc. analyst Rachael M. Scherer says annualized price increases for medical device makers fell to 5% in 1992, from 8% a year earlier. And some stocks have tanked: For instance, shares of Biomet Inc., a maker of artificial hips, fell 46% in 1992. Health reform may also hurt manufacturers by discouraging rival hospitals from buying duplicate high-tech equipment.

'TOUGH MESSAGE.' The nation's 615,000 physicians will end up on the defensive as well. "The real issue is that 75% to 80% of the costs in the system are driven by physicians," says David M. Lawrence, chairman and CEO of Kaiser Foundation Health Plan Inc., a managed-care pioneer. So their incomes likely will be squeezed in 1993.

Last but not least on the list of complainants will be health-care consumers, notably retirees. They are finding that their benefits are being chopped by their old employers, partly in response to a new accounting rule that will require the companies to take a charge against earnings to reflect the value of promised benefits. Says Helen Darling, manager of health-care strategy programs at Xerox Corp.: "Companies can no longer afford to be all things to all people, and that's a tough message coming from paternalistic companies like Xerox." It's also just one more sign that 1993 may mark the end of an era—for patients and health-care providers alike.

By Julia Flynn in Chicago, with Susan Garland in Washington

TRANSPORTATION

AIRLINES: STILL NO WIND AT THEIR BACKS

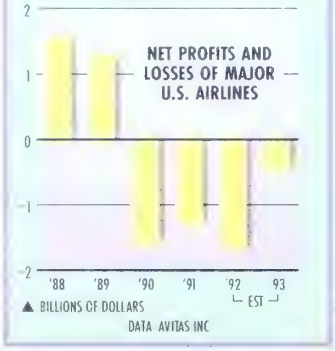
More cost-cutting and fare boosts should help

After three dismal years for U. S. airlines, despair in the industry is giving way to meager hope. UAL President John Pope reels off a string of depressing problems—sluggish bookings, low fares, and the damage a lousy Japanese economy is doing to his overseas traffic—and then concludes: "I'm optimistic that next year will be better, but I'm not overwhelmed." USAir Executive Vice-President W. Thomas Lagow's reasoning for expecting the industry to show improvement: "Because it has to."

Not exactly a ringing vote of confidence. But executives see tentative reasons to believe that 1993 won't be as disastrous as '92, when domestic industry losses totaled an estimated $1.7 billion. The recovery is finally starting to roll. Further upticks in the economy should boost business bookings at least moderately in the first half and may bolster pleasure travel by the second half. And while airport user fees and other charges are rising, rigorous cost-cutting begun in 1992 will keep expenses from spiraling. Barring an unforeseen disaster, such as a spike in fuel prices, the industry should approach breakeven in 1993, says Lawrence R. Crawford, president of aviation consultant Avitas Inc.

KNOCKOUT. The key to success will be fare boosts. "We've been selling our product at below cost for too long," says Delta Air Lines Inc. President W. Whitley Hawkins. That hit home last summer, when a 50% sale led by American Airlines Inc.—in retaliation against a promotion by a rival carrier—attracted travelers in droves, boosting traffic 12%. But higher volume couldn't offset the drop in revenue: The cheap fares cost the industry at least $1 billion in revenue and prompted lawsuits by rivals against American for predatory pricing. Now, airline executives are vowing to avoid nuclear-scale price wars. Most have already nudged fares up 20% since fall, and they're limiting discounting to specific markets.

Problem is, self-discipline on pricing will go only so far. Fares remain hostage to a simple economic law: When supply exceeds demand, prices fall. And there's wide agreement that there are still too many seats chasing too few passengers. When traffic was rising 10% a year during the late 1980s, airlines ordered hundreds of jetliners. Then, the recession



cut growth just as the new planes were being delive

Airline executives say it should be 1994 before jet d eries slow enough to bring capacity into balance wit mand. Liquidations of weaker carriers might have acc ated that. But $1 billion in capital from foreign airlines employee concessions is flowing into carriers such as T World Airlines Inc. and Northwest Airlines Inc. So eve ing airlines should remain aloft for the near term, a Merrill Lynch & Co. analyst Candace Browning. She t the industry will boost capacity this year by 3% domes ly and 11% internationally.

That will force carriers to focus more on cost-cut The Big Three—American, United, and Delta—hav ready announced more than $15 billion in capital-spe cuts through 1995. Northwest, which has been scram to avert bankruptcy, canceled $3.5 billion in Airbu dustrie orders in December. But most carriers also savings that will boost the bottom line immediately.

December, Delta cut wages by 5% and cut its divi 83%. Northwest is seeking wage concessions American plans to chop some $300 million fro projected 1993 operating budget of $13 billion.

More profound changes are in the wind. Ame says that if it can do so profitably, it shrink the airline by closing hubs or s assets. Or it may offer some

bones se similar to th Southwest Ai Co., an enorm successful short-haul competitor. Southwest has s that, at least on quick flights, customers prefer l fares to amenities such as meals.

U. S. carriers could be roiled, meanwhile, by incre turbulence in foreign markets. The carriers have had fabulous successes in recent years, capturing dom market shares on routes to most European countrie Japan. But now, France, Germany, and Japan are movi protect their carriers by seeking restrictive air treatie threaten the foreign growth and profits of U. S. airli

British Airways PLC's failure to win approval of a million investment in USAir Inc. will exacerbate the lem. Washington had conditioned the deal on liber tion of the British market, which could eventually helped open other markets. For the short term, at the process may be stymied. The nixed investment leave USAir vulnerable to bankruptcy, though som perts think BA or even another foreign airline wil forth a new offer.

Whatever else happens, most U. S. carriers have t their finances in order. The Big Three alone have bled their leverage in the past four years, and their d now roughly 80% of capitalization. First Boston Corp lyst Paul Karos thinks American will be the first to ea debt, but not until 1994, when demand should com line with capacity. So in '93, job No. 1 for U. S. airline be to hang on for one more year.

By Andrea Rothman in New York, with bureau re

RESTAURANTS

THE HUNGER PANGS LET UP A LITTLE

tiny upswing may give chains the biggest boost

fter several tough years, the $267 billion food service industry will struggle again in 1993 to serve up appetizing results. Americans began flocking more iently to eateries last fall after rationing their away-home dining during the recession. As a result, sales at g and drinking establishments will rise this after sliding since 1990, though the rate of ovement will be smaller than in four of past five years. "It's going to be her challenging year," says Sid- J. Feltenstein, executive vice-pres- for Burger King Corp. Restau- sales may rise only 3.5% this , vs. 2.1% in 1992, according to rill Lynch & Co.

dependent restaurants face the -palatable prospects. Even before economy faltered, many of them d it hard to compete with -pocketed chains. That's ly why independents now unt for just 56% of all restaurants, down from in 1986, says Peter H. es, a vice-president at Merrill h. And the chains will bite off e market share again this year: Their will grow by an estimated 8%—twice as as those of independents, predicts Ronald Paul, president of Chicago-based consul- Technomic Inc. He sees net margins he 94 largest public chains widening to from 7% in 1992.

MANY CHOICES.' The chains will keep pouring it on. Donald's, Burger King, Wendy's, and Hardee's all figure if they lure more customers with selectively lowered es and bargain meal combinations—by delivering value, ndustry parlance—they can offset the damage lower es do to revenues. McDonald's Corp. is guaranteeing omer satisfaction, even if it means giving diners a meal gratis. "The challenge is to exceed customers' ex- ations, because they have so many choices," says H. hen McManus, exec- e vice-president for Services Inc., Hard- No. 1 franchisee and operator of units of e other chains.

he chains have sev- reasons for opti- m. Overseas expan- will give a big lift to companies as Pepsi- Inc.'s Kentucky Fried ken and McDonald's. ther Pepsi chain, Piz- Hut, plans to open 300 new units abroad in 1993, the same number it's opening in the U. S., says President Allan Huston. And with the domestic economy moving again, more brown-baggers are likely to trade up to quick-service meals.

Some recently revitalized operators will keep heat on the leaders, however. "This is a market-share battle, and we've got to take business away from others," asserts Frank J. Belatti, new chief executive of AFC Inc., the renamed parent of the Church's and Popeye's fried-chicken chains, which recently emerged from bankruptcy. AFC (short for America's Favorite Chicken) has a more manageable debt load of $250 million, down from $400 million, since it reorganized in September and lenders agreed to convert some debt to majority ownership. Now, it will expand its menu and spend $100 million a year to refurbish its 800 company-owned units.

LOSING WEIGHT. TW Services is also trying for a fresh start. In November, it got $300 million from Kohlberg Kravis Roberts & Co. in exchange for a 47% equity stake. Its debt-to-equity ratio is still 7.8 to 1, down from 12.6, but it has cut borrowing costs by refinancing at lower rates for longer maturities. Some of its new cash will go toward expansion and product development. Gilbert/Robinson Inc., parent of 93 Houlihan's, Darryl's, and other units, came out of Chapter 11 in 1992 with its debt halved, to $100 million, and interest payments cut to $10 million a year from $25 million, says President Frederick R. Hipp.

In the midpriced segment, a slew of small but fast-growing chains will likely continue to ring up strong growth. For instance, steakhouse chains such as Lone Star, Longhorn, and Outback are defying the conventional wisdom that Americans are eating less red meat. With an average tab of about $18, they seem to have found a growth niche between lower-cost chains such as Ponderosa Inc. and Sizzler International Inc. and white-tablecloth steak joints. Other casual-dining restaurants, including Chili's and General Mills's Olive Garden, should also continue to do well this year.

Some chains can expect tougher going, of course. After surging 12% a year during the 1980s, fast-food-pizza chains' domestic sales were flat in 1992. To revive growth, Pizza Hut is rolling out a $3.99 lunch buffet featuring pizza, pasta, and salad fixings, and it's expanding aggressively into nontraditional sites such as college campuses and kiosks. Some regional chains have fewer options. Ohio-based Rax Restaurants Inc., which specializes in roast-beef sandwiches, has been unable to keep up with national rivals and filed for Chapter 11 last November.

Whatever their prospects, restaurant operators know that customers won't sit still for big price hikes. Proprietors are counting on weak commodity prices to help keep average checks in line. After dropping 4% last year, the price of food and packaging is expected to remain flat in 1993. That's one reason TW Services thinks it can hold increases in its menu prices to about half the expected U. S. inflation rate of 3%. After all, in a year when growth is slow and competition fierce, no restaurateur can afford to give customers sour stomachs with an overpriced menu.

By Lois Therrien in Chicago

A SLIGHT REBOUND AT RESTAURANTS

UTILITIES

TIME TO TURN UP THE JUICE

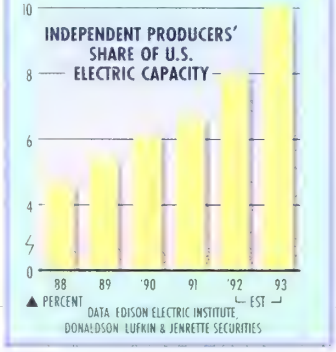
Utilities must adapt to deregulation—or else

In recent years, Joseph F. Paquette Jr., chairman of Philadelphia Electric Co., has done everything he can to cut his utility's costs—from refinancing its high-interest debt to using an early retirement program to pare employment by 15%. He has even foregone pay hikes that would have boosted his salary, now $420,000, by $80,000, and has made his top managers accept similar sacrifices. Philadelphia Electric is "a high-cost producer," Paquette says, so it "has to reduce costs if it's going to compete."

Paquette's moves are just one example of the medicine that utilities are swallowing to get ready for the deregulation that's about to sweep their industry. Starting in 1993, the Energy Act that Congress passed last October is likely to lead to a major restructuring of the industry by speeding up existing trends such as cost-cutting, mergers, and the growth of so-called independent power producers. "It's going to dramatically change the way we do business," predicts Richard C. Green Jr., chairman of UtiliCorp United Inc., a diversified utility company based in Kansas City, Mo. "In a sense that we haven't felt in the past, we'll have to be market-driven."

For starters, the new legislation lifts most of the restrictions on independent power producers, who build generating plants and contract to sell power to utilities at market rates. Independents aren't subject to all the heavy regulations that burden utilities, and their share of U. S. electricity production has already jumped to 8% from zilch 12 years ago. With deregulation, predicts Daniel Scotto, an analyst with Donaldson, Lufkin & Jenrette Securities Corp., independents will build up to 75% of all new generating capacity, up from about half now.

NEW RIVALS. Just as important, the law opens the wholesale power market to new competition. Potentially, any producer, including an independent, will be allowed to transmit power anywhere over the nation's electric lines, as long as it pays for the privilege. This means that a utility needing more capacity will be able to shop around and buy power at market rates from independents or utilities far from its territory. If it all works, competition will drive down rates.



All this is hitting just as utilities struggle to reco from a lousy 1992. The recession and a cool summer k demand flat and whacked earnings. Assuming an econ ic recovery this year, demand should grow 2% or 2.5%, Thomas Kuhn, president of the Edison Electric Instit the industry's lobbying group. Barring more unseasona weather, adds Goldman, Sachs & Co. analyst Ernest public utilities' net earnings could rise about 8% on aver

The big question now: How far will deregulation What utilities fear most is retail competition, where out ers could come in and pick off their best industrial cust ers by selling them power direct. For now, that's proh ed. But such analysts as Smith Barney, Ha Upham & Co.'s Edward J. Tirello contend it's inevitable. In fact, UtiliCorp's Green pects the beginnings of such a trend by this year. "You'll start to see evidenc large industrial customers shop around for cheaper power," he s which will put pressure on regula to allow more competition. "There financial risks," warns Richard A. Cla chairman of San Francisco-based Pa Gas & Electric Co. "Some utilities coul left with stranded investments" in high- generating capacity.

FOREIGN CAMPAIGNS. To gird for such eve alities, many utilities are scouting new inc streams abroad, where they're buying or tracting to run privatized foreign utilities. H ton Industries Inc., for instance, recently m its first foreign acquisition when, with Citi Capital Investors and two Argentine p ners, it paid $139 million for 51% utility near Buenos Aires.

Cost-cutting is also sure to tinue apace. Philadelphia E tric now expects to reduce ployment at its nuclear-p operation by up to 600, or And more big savings may c through mergers. For instance. combination of Gulf States Util Co. in Beaumont, Tex., with New Orleans-based tergy Corp., expected to be completed in 1994, will $1.7 billion on energy, operational, and other costs ove years, Entergy estimates.

To further deflect competition from rivals, most big ities plan to rapidly expand their own independent p subsidiaries, something the new law makes far easier cific Gas & Electric, for instance, is building $3 bi worth of such projects that will generate 1,500 megaw of power, and it is considering adding 1,200 Mw n Given such determination and financial clout, Clarke tends, the utilities themselves will one day dominate pendent power. William T. McCormick Jr., chairma CMS Energy Corp., a large Dearborn (Mich.) utility ho company, agrees—sort of. With big companies such as eral Electric, Bechtel, and Europe's ABB Asea Brown B ri also investing in independent power, he says, "the s vors will be companies with a lot of experience and ca

In short, a new age is starting for the utility busi "The new legislation will create an industry that will vastly different in 5 to 10 years," says Donaldson, Luf Jenrette's Scotto. Companies that don't adapt now ending up at the back of the pack.

By Thane Peterson in New

ENTERTAINMENT

PLENTY OF COURTROOM DRAMA

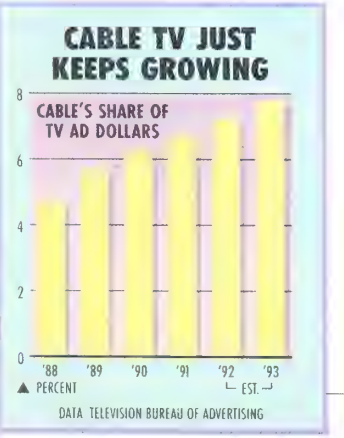
gal action may help the nets—and harm cable

he real drama in the entertainment business this year will come from Washington. After three years of inconclusive wrangling, Federal regulators should fi- y settle on the guidelines that will shape the industry n now on. The rules may at last allow the Big Three vision networks to own the TV shows they air, setting stage for a flurry of mergers or joint ventures between ywood studios and the networks. And cable televi- will learn from the Federal Communications Com- sion whether the first change in cable regulation e 1984 will force it to scale back its rates.

n sum, 1993 could be a good year for the networks, tough on cable. The Big Three networks en- d a relatively strong 1992, thanks to the Olympic ies and the Presidential campaign. The nets ac- ly halted a long downward trend in audi- e share in the 1991-92 season. Cable scriptions, on the other hand, grew than 1% in 1992, after averaging 5% ual growth for the previous five rs. They will barely expand in 1993. er years of rate hikes, consumers "clearly reacting to the high costs," s media economist Arthur Gruen, presi- t of Wilkofsky Gruen Associates Inc.

NAL SQUABBLE. The networks will also benefit n a better, if not robust, advertising environ- t. They could record a 2% rise in ad revenues year, says CBS Inc. research chief David F. Pol- k. Factoring out the quadrennial boost from 1992's mpic and political advertising, that translates to erlying growth of 6%. The big winner will be ratings mpion CBS. It could earn $350 million in 1993, up from estimated $190 million in 1992, says Seidler Amdec Se- ties Inc. analyst Jeffrey B. Logsdon. ABC Inc.'s earnings d rise about 9%, to around $600 million. Fox Broadcast- Co., which will expand from five to seven nights, could ord a 40% rise in profits, to $70 million, says media an- st John S. Reidy of Smith Barney, Harris Upham & Despite its recent ratings swoon, General Electric Co.'s Inc. could enjoy 12% profit growth, to $275 million, es analyst Nicholas Heymann of County NatWest Secur- s Corp. USA.

Cable's outlook, by trast, is unusually un- tain this year. Ad enues will grow by as ch as 12% in 1993, ien predicts, to just ler $2 billion. But in ition to the backlash r rates, cable opera- s could be hindered a new bill, passed by ngress in September, t could force them begin paying local TV stations for the right to carry the stations' signals.



The cable companies are banking on new technology to help sidestep their growing list of problems. Tele-Communications Inc., the nation's No. 1 cable operator, recently announced plans to offer 500 channels of programming by installing digital compression technology in its system. "Our ability to deliver program services is limited only by the imagination," says TCI President John C. Malone. Down the road, cable will be able to offer services such as on-line encyclopedias and the home purchase of airline and movie tickets. One early target is likely to be the $11.5 billion a year market for home video cassettes, which is already showing signs of maturing. This year, the average cost of pay-per-view movies shown on cable could drop to $2.99 from $3.99, says Gruen, which could entice more shoppers to forgo the trip to their local video stores.

Industry heavies are scrambling to fill the programming pipeline. Former Fox Chairman Barry Diller just invested $25 million in QVC Network Inc. He plans to use the electronic shopping network to offer a panoply of multimedia services, such as interactive game shows.

While the cable industry has its hands full in Washington, the networks may finally get some satisfaction there. A Chicago court has given the FCC until April to clarify or shelve its reformulated financial interest and syndication rules, which prohibit networks from moving heavily into the lucrative syndication market or merging with a studio. If, as some experts predict, the FCC shelves the rules, one bidder may be Capital Cities/ABC Inc. It is willing to spend up to $8 billion on acquisitions. Paramount Communications Inc. is a rumored target.

BONANZA. Hollywood studios look more attractive now. After a tepid 1991, the box office came back strong in 1992—thanks to such holiday blockbusters as *Home Alone 2: Lost in New York* and *Bram Stoker's Dracula*. Even though ticket prices didn't keep pace with inflation for the second straight year, nearly $5 billion in tickets were sold in 1992. Box-office revenue could rise 2% to 3% in 1993.

Even more surprising, the big-spending Polo Lounge crowd managed to keep expenses down in 1992. Analyst Logsdon estimates that the average price of making a movie fell as much as 10% from its 1991 average of $26 million. Some extravagant films will still be made in 1993. Columbia Pictures lured Arnold Schwarzenegger to make *The Last Action Hero*, a $60 million special-effects bonanza due out this summer. "We're going to make big-budget movies if we think it's a movie that people are going to want to see," says Columbia Chairman Mark Canton.

Buoyed by the success of such TV-classics-turned-movies as *The Addams Family*, Hollywood will also go back to its future with film remakes of *Dennis the Menace* and *The Fugitive*, which will feature Harrison Ford in search of the one-armed man who murdered his wife. Like some of the regulations being thrashed out in Washington, these blasts from the past could prove to be crowd pleasers.

By Ronald Grover in Los Angeles and Mark Landler in New York

FINANCE

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ILLUSTRATIONS BY JANET WOOLLEY

BANKING

'S A BANK-EAT-BANK WORLD

fits soared in '92, but overcapacity is still rife

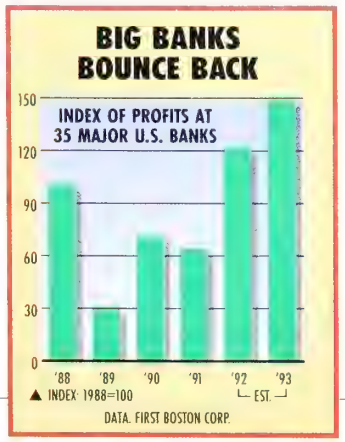
attle-scarred banks entered 1992 expecting only mild relief from a mountain of troubles. So it was more than a surprise when a combination of low interest and a slowly strengthening economy helped the indus- produce a record $25 billion or more in earnings, ac- ng to American Bankers Assn. estimates. The industry faces fundamental problems, and the big banks' profit th will probably slow this year from last year's 90%. so, earnings could set another record in 1993.

e steady decline in short-term interest rates since has been a godsend to banks. Many of them borrow -term money to lend for longer periods, so they've able to reduce their funding costs, hold loan rates rel- ly steady, and pocket the difference. Most experts ve the cost of money has bottomed out, and note that tes rise much, bank earnings could suffer. But the ge to profits should be largely mitigated by a de- in the amount of poor-quality assets banks hold. By September, many big U. S. banks were reporting a t decrease in problem loans. The Federal Deposit In- nce Corp. says the industry's nonperforming assets 2.25 billion last year, to $97.4 billion. And the number nks on regulators' watch lists is falling.

LLER PIE. The industry will also benefit in 1993 from onian cost cuts it made over the past two years. Citi- has pared its work force by about 18,000, or 18%, since 1990. And the merger of Chemical Banking Corp. and ufacturers Hanover Corp. has led to staff cutbacks e totaling more than 4,500. Industry analysts expect e bank cutbacks and layoffs this year.

ven a slimmed-down industry faces an underlying prob- though: declining demand for bank products and ser- . Big, healthy companies that used to be bank custom- now tap the capital markets directly, for instance. , even if demand for credit picks up, there may not be gh quality investment avenues for all the lending s want to do. "The revenues available to you in this in- ry are shrinking," says James M. McCormick, president irst Manhattan Consulting Group. "The industry is ably 30% over capacity."

, as they did last year, banks will move into business- here demand is strongest. Minneapolis-based Norwest ., for one, is fast ex- ling its mortgage and nce companies, and ring such new prod- as mutual funds ugh its branches. f Executive Officer ard M. Kovacevich views his branches retailing operations, aims for "same-store s growth," a novel ept for bankers, who to offer a limited ar- of products.



Others are expanding their transaction processing, the low-risk, nuts-and-bolts job of moving money around the world for a fee. Since merging with Security Pacific Corp. in 1992, BankAmerica Corp. has become a leader in this field, according to Salomon Brothers Inc. Philadelphia's CoreStates Financial Corp. and Boston's State Street Boston Corp. are both doing more transaction processing.

Still other banks continue to train their sights on a few well-defined segments of the business. Bankers Trust New York Corp. is focusing on securities and derivatives trading and wholesale banking rather than on retail products, such as checking and savings accounts. Vice-Chairman George J. Vojta says Bankers will continue that overall thrust in 1993. "You can see a new kind of a definition" in banks' competitive strategies, he says.

WISH LIST. Banks are also merging to reduce overcapacity. John F. McGillicuddy, CEO of Chemical Bank and a veteran of the first blockbuster merger of crosstown rivals, expects many more combinations. "We'll continue to see consolidation across the country, and hopefully, [Chemical] will demonstrate that an in-market merger can be successful," he says. Experts say there could be fewer than 8,000 banks by century's end, down from 12,000 now.

How many banks survive could depend in part on how friendly the new Administration is. Bankers are eager to press their case on several issues to President-elect Bill Clinton. Six major industry groups got together on Dec. 7 to write him a wish list for '93, which proposes liberalizing financial-reporting requirements and other industry regulation. The bankers also want an end to what they see as regulators' micromanagement, which, they complain, puts them in a straitjacket. William Brandon, president of the American Bankers Assn., has told Clinton that if banks' regulatory burden were lightened, they would lend more—and that a 4% increase in lending would mean $86 billion in new credit. Such a big increase is unlikely, experts say, but any new lending should create jobs, a Clinton priority.

FEWER THAN 8,000 BANKS MAY BE LEFT BY CENTURY'S END, DOWN FROM 12,000 NOW

However Clinton reacts, banks seeking help in Washington are going to run into trouble with the chairmen of the House and Senate Banking Committees. Representative Henry B. Gonzalez (D-Tex.) and Senator Donald W. Riegle Jr. (D-Mich.) are proud of the bank-reform legislation they shepherded through in 1991. They're also unhappy about reports that banks aren't lending as much in low-income neighborhoods as the rules say they should—and aren't convinced that the industry's troubles are behind it.

Now that bank profits are healthy again, the industry must turn its attention to long-term challenges. To ignore the fact that borrowers are going elsewhere for credit—a bank's primary product—"is like saying you're not going to make a decision about a train that's six inches from your nose," says Edward E. Crutchfield Jr., CEO of First Union Corp. in Charlotte, N. C. The only question is: Which companies will position themselves successfully enough to be around for the next banking crisis?

By Kelley Holland in New York, with Mike McNamee in Washington

INSURANCE

INSURERS RECOVER FROM WHIPLASH

After last year's disasters, a price-war cease-fire

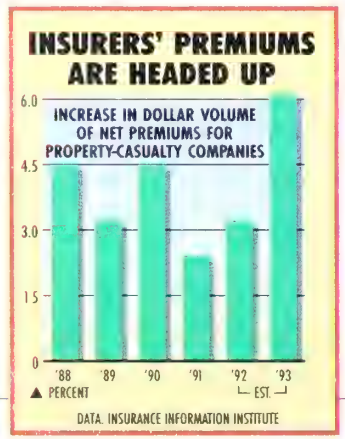
Last year, just about everything that could go wrong for insurers did. Hurricane Andrew and other catastrophes cost them $20 billion in claims and cut earnings of property-casualty companies by 37%, to $9 billion. Their available capital—from which claims are paid—fell 4.7%, to $150 billion, its first drop in nearly a decade. But the shock of that may produce a benefit in 1993. For now, it has ended the ruthless, often unprofitable price competition that has savaged the $223 billion property-casualty business for six years.

Insurers are being kind to each other because they're in the midst of restructuring. Venerable companies are cutting costs severely, seeking mergers, or selling key operations. Travelers Corp. is paring its work force by 10%. Kemper Corp. and TransAmerica Corp. are leaving the property-casualty business. Travelers has sold 27% of itself to Primerica Corp., and Kohlberg Kravis Roberts & Co., an investment bank, has bought Aetna Life & Casualty Co.'s American Re-Insurance Co. subsidiary. "A lot of big companies are selling off pieces to stay alive," says Furman Selz Inc. Managing Director Ernest G. Jacob.

Consolidation is coming mostly to multiline insurers, which have sold everything from auto to life and health: They've decided they can't be all things to all people, especially now that rivals such as Geico Corp. use toll-free calling and credit-card sales instead of costly agents, or specialize in one kind of coverage. Even old-line insurers are catching on: ITT Hartford Insurance Group now markets directly to members of the American Association of Retired Persons.

NEW MIX. For property-casualty writers, the big problem this year will be the aftermath of Andrew, the Chicago flood, the Los Angeles riots, and 1992's tornadoes. In response, the reinsurers who share the risk by providing insurance, above certain limits, to primary insurers will trim their exposure and may raise rates by 30% to 50%. Most insurance is reinsured, so that will tighten its availability.

The catastrophes will also hasten an inevitable transformation in income mix. With interest rates low, insurers have quit counting on double-digit returns on investments. That will help force property-casualty rates higher in 1993—up 10%, some analysts say. Thus, profits of insurers "will begin to improve by the middle of the year," says analyst Weston M. Hicks at Sanford C. Bernstein & Co. Analysts surveyed by th surance Information Institute think the industry's c bined ratio—what insurers pay out in claims and overh per dollar of premium—will turn more favorable this y declining from 113% to 111%. Analysts say property-ca ty profits could rebound to as high as $12 billion.



Profits on auto insurance may improve, too. That b ness is often a loser for big insurers. But changing dri habits and safer cars cut the number of U. S. road fata from 49,000 in 1988 to 43,500 in 1991. Claims costs, w rose 8% to 10% a year in the mid-1980s, have risen 5% nually for the past two years. Insurers also have modest rate increases in some states, though they're battling regulators in such unprofitable markets as Jersey and California. Regulators there won't let insu drop their auto coverage while continuing to sell mor crative lines, such as homeowners' insurance.

Life insurers may have to wait a while for better tid since they're still w ing off bad real es investments. The s of their assets in m gages is down to a 15%, vs. 20% in 1 But many loans this year can't be r over at high en rates to provide tive cash flow. Lif surers have been e ing policies chea wrest savings do from mutual funds banks. In that ba "you can get a l premium and go br says David Roe, C United Services Lif surance Co. in Ar ton, Va. Life insu are also bracing tough new capital dards. While they affect most insurers, they may speed a flight to qualit buyers who fear failure of life companies with too dicey real estate and junk bonds.

The cloud over all U. S. insurers is the uncertai mosphere in Washington. Life companies are often gets for revenue-raising measures, such as one in that took away quick deductibility of agents' commis and a proposal last year to tax annuities. Health insu will face pressure from a new Administration intent forming health care (page 95). A further threat to all i ers is a proposal by U. S. Representative John D. Di (D-Mich.) to set minimum reserves and other standa

State politicians have fought this, arguing that oversight is sufficient. But some large insurers bac idea as a way to standardize regulation. Last year's d sures of alleged fraud among some unregulated fo reinsurers give Dingell ammunition, since some 4 U. S. reinsurance is now handled by offshore carrier

Even so, it's doubtful that increased regulation health-care fix will trim the earnings of insurers in 19 nearly as much as hurricanes and tornadoes did in 199 with one eye on the weather map, insurers enter 199 cautiously optimistic mood.

By Tim Smart in Ha

SECURITIES

HE STREET MAY STILL BE PAVED WITH GOLD

rates stay low, '93 could be a third good year

fter a wonderful 1991 and a stellar 1992, the securities industry has a shot at racking up its third strong year. But sustaining the heady pace of the two years won't be easy. For Wall Street's earnings to high, interest rates must remain low. And that will be likely if President Clinton implements stimulative pol- to ensure that the rebound lasts. "While 1993 could be elatively decent year, the end of the boom time for brokerage industry rriving," says John Goldsmith, CEO of ker Anthony Inc., a on firm.

'Relatively decent" d be pretty good, ever. In 1992, the istry had its best in history. Brokers earned an estimat- $6.7 billion before es, besting the $5.8 on record they set 991. The lion's share e take came in ear- 992 as the Federal erve continued to interest rates. Those er rates generated underwriting busi- s for investment kers when compa- refinanced their -interest debt, and brokers, who sold more stocks when investors dumped d-income investments.

uch activity slowed in the second and third quarters, in because of the uncertainties that attend any Presiden- election. As a result, the 11 stocks in the Lipper Bro- age Index tumbled 12% by September. But bolstered by culation that a Clinton Presidency will boost the econo- brokerage stocks rebounded about 13.5% from Septem- through mid-December.

W CROWD. Some think the bounce isn't over. "This will a remarkable year," says Charles R. Schwab, president Charles Schwab & Co. "I'm worried about [our] capacity." 1992, the San Francisco-based firm's head count shot up e 20%, to 4,450, and Schwab expects to increase em- ment an additional 10% in 1993. He has invested heav- in new products, such as the NTF Service, which lets in- tors buy a variety of no-load mutual funds, 24 hours a , without paying any fees. "Low rates introduced a ple new crowd of people into the world of investing in ities," says Schwab. "This is not a one-year trend."

Wall Street firms could also benefit from their push to ect customer assets into each firm's house-brand mutu- unds. Such business generates a steady stream of fee in- e over the life of the mutual fund, vs. one-time commissions generated when stocks and bonds are bought or sold. "Firms with large concentrations of assets under management begin the year with record earning power," says Michael Flanagan, an analyst at Lipper Analytical Services Inc.

The securities industry may benefit as well from Clinton's tax package. Brokers, for example, may sell a lot more tax-exempt municipal bonds this year to help the rich shelter income from proposed higher income taxes. Sales of IRAs could get a boost from proposed legislation that would increase the IRA contribution that is tax-deductible. "As individuals working on the Street, we will be taxed more heavily. But presumably we will have higher earnings to tax," says Robert Willens, a tax-and-accounting analyst at Lehman Brothers.

IPO ANCHOR. The new-issue market should also benefit from Clinton's plan to funnel patient capital to small companies. The President-elect has said he wants to slash the capital-gains tax on the new issues of these businesses by 50%—so long as investors hold them for five years. This would reduce the rate to an appealing 14%.

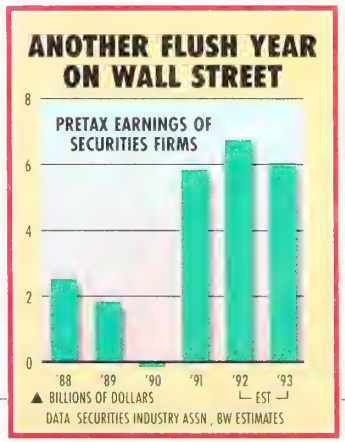
One initial public offering that Wall Street will be watching in February or March is Sears, Roebuck & Co.'s proposed spin-off of Dean Witter Financial Services Group. If investors snap up stock in the company, which consists of a retail brokerage and the Discover card, other dissatisfied corporate parents may be inspired to follow suit. These could include American Express, the owner of Shearson Lehman Brothers, General Electric, Kidder Peabody's parent, and Prudential Insurance, which owns Prudential Securities.

There's one note of caution in this rosy outlook. If the economy reheats too quickly, the Federal Reserve could raise interest rates. Just like banks, brokerages make big bucks when short-term interest rates are low and long-term rates are high, as they were in 1992. They can borrow short-term money at 3%, buy longer-term U. S. government securities yielding 6.5%, and pocket the difference. Higher rates would squash this yield-curve play, which has been brightening the Street's earnings.

Higher rates might also hurt the business if investors abandon the market to buy CDs. The flow of cash into both commission-generating stocks and fee-bearing mutual funds would slow. "The first quarter could be strong if interest rates are still low," says Guy Moszkowski of Sanford C. Bernstein & Co. But he adds: "Even if rates don't change, I don't see how it gets better."

There's at least one sign that business is topping out: The industry is once again starting to beef up staff and pay employees handsomely. Research analysts are getting rich, traders are being paid multimillion-dollar bonuses, and a number of firms are luring experienced brokers with record up-front bonuses. "I hear a lot of talk about lean and mean, but people are getting paid big bucks," observes Tucker Anthony's Goldsmith. "As an industry, we forget our mistakes." When you're drowning in money, that's easy to do.

By Leah Nathans Spiro in New York



REAL ESTATE

HOME IS WHERE THE RECOVERY IS

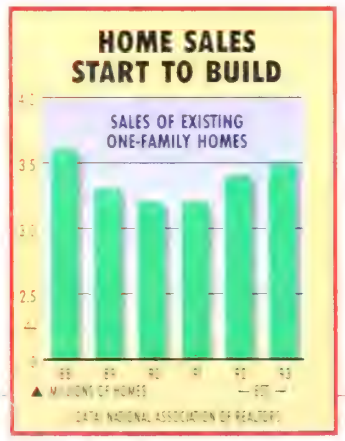
Office and commercial space will follow—slowly

After spending three years in intensive care, real estate is finally on the mend. The pulse of housing demand is quickening, and commercial real estate is in stable condition. Still, the industry's convalescence is just beginning, and a full recovery may be years away.

Housing, as the saying goes, leads the way out of every recession—and this year is no exception. Sales were up 7% for existing single-family homes in 1992. And the National Association of Realtors projects that sales of such homes will hit 3.5 million in 1993, up 3%. "Any time a housing upturn has begun, it never has reversed itself," says J. Larry Sorsby, senior vice-president for finance at Hovnanian Enterprises Inc., a homebuilder based in Red Bank, N. J. And this time, there's healthy demand: During the recession, people put off buying homes and making other large purchases for fear they would lose their jobs. "They'll be coming back at a moderate pace as the economy improves," says David W. Berson, chief economist at the Federal National Mortgage Assn.

The key factor in the housing upturn so far has been a moderation in prices and mortgage rates. Home prices nationwide were up 4.9% in 1992. Even so, home-ownership costs are at their lowest levels in 15 years, according to Harvard University's Joint Center for Housing Studies. That's partly because of interest-rate declines the Federal Reserve engineered to combat the recession. Rates on 30-year conventional mortgages fell from 10.7% in 1988, to a low of 7.9% this past September, before nudging up to the current 8.4%. The rate may climb to about 8.8% by yearend, housing experts believe, but that's still low by recent standards.

RAW DEALS. It should be low enough, in fact, to provide the first decent year for homebuilders since 1989. The recession weeded out lots of smaller players: Failures surged to 5,000 in 1992, more than double the level in 1989. But those who survived are well-positioned, especially the ones that snapped up raw land at bargain prices. Hovnanian, for instance, has secured 8,000 vacant lots during the past two years for about half the price it was paying during the booming mid-'80s. Earnings outlooks for most name builders are rosy for 1993. Oppenheimer & Co. projects that PHM Corp. in Bloomfield Hills, Mich., will earn $4 a share this year, up from $2.90 in 1992. "Demand for houses is up and labor costs are down, so builders should do very well in 1993," says Oppenheimer analyst Barbara K. Allen.



Prospects in commercial real estate aren't nearly good, but there is a positive side: The disaster may over, and the cleanup is starting. Downtown office vac cies across the country seemed stuck last year at a st bornly high 18.5% rate. "We saw rents drop 20% to 30 says Arthur J. Mirante, president of real estate brokera Cushman & Wakefield Inc. "Thank God they've stabilize The one exception may be California, whose office mar is still in a free fall.

Unlike housing, the office-building market won't helped much by the recovery. Ongoing corporate down ings mean slow growth in the white-collar work force, excess office space may not be filled until near the enc the decade. First to recover will be suburban offices, si most construction of them stopped two years ago. true with big downtown buildings: Some projects in pipeline when the re sion hit couldn't stopped.

WAITING GAME. outlook for other mercial real estate is unappealing. Ov building of apartme in the '80s led to an usually high 10% va cy rate in multifam housing in 1992. rate may not bu this year. One reaso that the recess forced many yo renters, the traditi apartment dwellers, double up or move b with their parents. struction of new u fell last year, howe to one-fifth the re 576,000 put up in 1 So analysts say su may level out with demand in a year or two.

Meanwhile, many landlords are shrinking their holdi to a more profitable core: Cardinal Industries Inc. in Col bus, Ohio, which emerged from Chapter 11 in 1992, about halved its number of apartment complexes, sel the rest to pay down debt. After a wild expansion in 1980s, hotel chains are playing a waiting game, too. O pancy rates were at an abysmal 61% last year, and won't improve soon.

Retail space is one of the few sectors of comme construction where overbuilding hasn't occurred. Indeed, cancy rates at malls are running a slim 5%. Still, re bankruptcies and restructurings at major department chains may soon lead to a shakeout in mall-land. The Ch go-based Real Estate Research Center Corp. expects 10 the 1,500 U. S. malls to disappear by the end of the dec

Opportunities still exist, however. Manhattan-based E dil Realty Inc. is converting a White Plains (N.Y.) s once occupied by now-defunct B. Altman & Co. in shopping center. "Our research has shown this is an un retailed area," says Eastdil Chairman Benjamin V. Lam "This is a good selective shot." For commercial real es in 1993, that's about as good as the news will get.

By Larry Light in New

Intelligence Defined.

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AMERICAN
PLAYHOUSE

Viewers' Profiles:

Kevin Kline

"Playhouse reminds me consistently of how much TV can do. Their programming happily ignores the status quo of the medium and brings out first-rate work from the artists it challenges."

Bernadette Peters

"It's a chance to see film and theater from artists you may not yet know—or to see people you do know doing the kind of work they can't do anywhere else. It keeps TV at the cutting edge."

Marilyn Horne

"The American Playhouse series on PBS is the one way I have to relax completely at home while staying on the edge of my seat. I put my phone on mute, my life on hold, and my mind on 'play.'"

For viewers in tune with television's potential, Chubb is proud to help bring the vision of American Playhouse onto the air and into your home. As we celebrate our ten-year partnership, we salute the artists and audiences who have made this the longest-running anthology series in history.

SOME OF THIS SEASON'S HIGHLIGHTS

Strangers in Good Company
A funny and fascinating chronicle of seven elderly women and their discoveries in an abandoned house.

Straight Out of Brooklyn
This look at a black family's battle against the odds launched the career of 19-year-old filmmaker Matty Rich.

Good Morning, Babylon
Two immigrant brothers discover America on the set of a D.W. Griffith epic. Greta Scacchi and Vincent Spano star.

Fires in the Mirror
Racial conflicts in a Brooklyn neighborhood simmer and explode in Anna Deavere Smith's tour de force portrayal of over 30 characters.

Thank You & Goodnight!
Humor, heartache, drama and documentary merge in this offbeat look at the life and death of the filmmaker's grandmother.

La Carpa
An immigrant laborer finds justice, hope and heart in the spirited art of a traveling theater troupe in the '30s.

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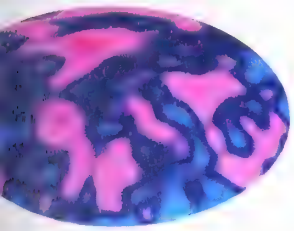
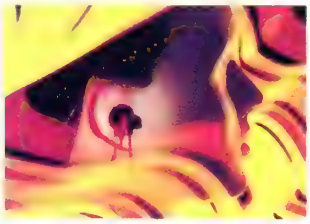
THE BEST OF 1992

TREPRENEURS

What a year! The economic clouds slowly parted to reveal a slimmed-down, competitive U.S. corporate world. As signs of a recovery took hold, an exceptional number of inesspeople and products made their rk in 1992. In these pages, you'll l a high-tech manager who made U.S. No.1 in chips again. A shrewd repreneur who pushed her startup to ond place in the business software rket. A brilliant retailer who embodies the sell- culture. A back-to-basics banker who "scrooged" her bank to success. A European CEO building a stateless corporation. A beautiful new notebook computer you can slip into a docking station to make a workstation. A surprising new car line that jumps the quality hurdle. An altimeter watch that gives you the number of feet you ski in a day or in a year. A mountain bike with a terrific suspension. A no-hassle, no-dicker sales method that customers just love. An idea that could make government efficient and less costly. Companies that helped out in a severe hurricane.



NEW IDEAS



NEW PRODUCTS

MANAGERS

These are just a few of the outstanding achievements for 1992. BUSINESS WEEK asked its editors around the world to nominate the year's most remarkable performers. Here are the exciting results.

PUBLIC SERVICE

THE BEST NEW PRODUCTS

THE SLIVER SCREEN

Liquid-crystal-display screens (LCDS) are getting bigger and better. Sharp's latest are thin and light enough to be portable. The 5.6-inch screen weighs 1.6 pounds and costs $1,095, while the 8.6-inch screen is $4,795. Both have thin-film transistor panels that provide high contrast.

A PEEP IN THE DEEP

Nikon's Nikonos RS is an autofocus single-lens-refl 35mm underwater camera that doesn't use special hou At $3,486, it has a 28mm 50mm, and a new zoom 20-35mm lens.

VERY EASY RIDER

The Stumpjumper FS is probably one of the smoothest off-the-shelf mountain bikes around. Specialized Bicycle oil-and-air Future S sion system can be different riding con price: $1,100.

RACLE IN
DTOWN

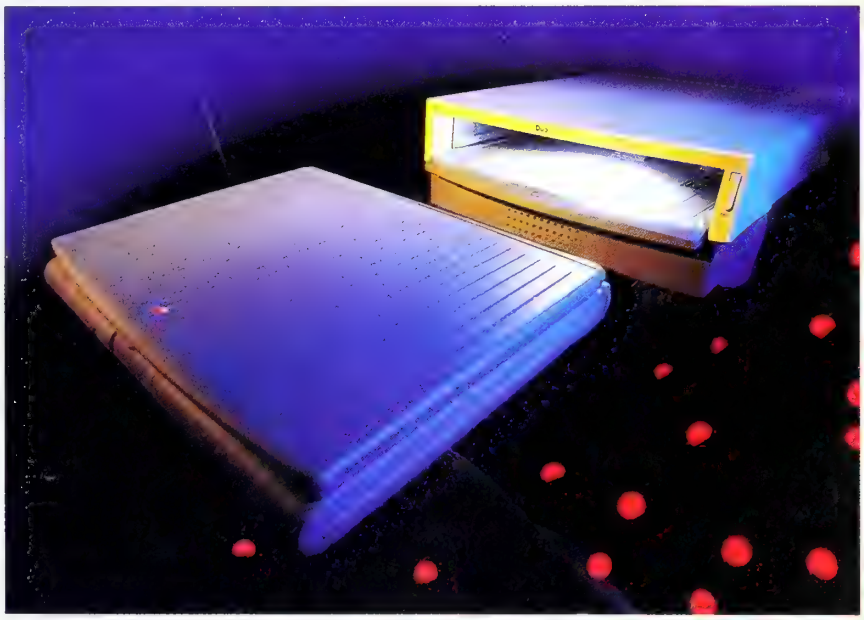
rysler did it! To the surprise f a skeptical Detroit, it d off a major coup. An in- tive design called cab-for- d gives its new line of mid- LH family sedans the spacious interiors of full-size cars. The Dodge Intrepid, at $15,930, appeals to traditional buyers. The Eagle Vision (above), $22,500 fully loaded, boasts a potent multivalve engine, road-gripping suspension that sport-sedan buy- ers love. All have dual air bags.

BREW HEAVEN

Who'd have thunk it? Flavored teas are hot, not only in supermarkets but on Wall Street. Snapple's lemon and raspberry iced teas are the latest New Age drink for the health-conscious. While consumers gulp down the "natural" brew, investors are gobbling up Snapple's stock, which rocketed nearly 50% in its first week.

OU OUGHTA BE
PICTURES

ile! You're about to make telephone call. AT&T's oPhone 2500 is the first motion-picture telephone. it into a regular phone and call up a friend who's ed up, too. It's pricey at 99 per, and the image on 3.3-inch screen is a bit y-jerky. But if must be seen e heard...



PORTABLE AND PRETTY

This is the portable computer for the road—and desk. Apple's new 4-pound PowerBook Duo not only keeps the sleek design of the earlier PowerBooks but also has separate "docking stations," priced from $589 to $1,079, that make it easy to plug into all the functions of big desktop systems.

(CLOCKWISE FROM TOP LEFT) PHOTOGRAPHS BY EFFREY LOWE, JOHN WILKES, ROBERT HOLMGREN

THE BEST NEW PRODUCTS

UPHILL SKATER

The Son of Skateboard is born! Snakeboard has two, not just one, independently pivoting platforms, making it much more maneuverable than its predecessor. With a little practice, snakeboarders can even snake their way uphill. The board, made by Skateboard USA, a San Diego start-up, sells for about $99.

LOOK MOUSE, NO HANDS

The IBM ThinkPad 700C has pizzazz! The 10.4-inch diagonal-active-matrix screen is 50% larger than most other notebook screens and offers resolution as crisp and clear as some color desktop computers. The 7½-pound machine has a unique pointing device built into the keyboard: The TrackPoint looks like a pencil eraser but acts like a mouse, allowing the user to manipulate it while hands never leave the keyboard. For $4,350, you get the 700C with a 120-megabyte hard-disk drive.

ONE GIANT STEP FOR KIDS

Nerdniks will get a cosmic kick out of Space Adventure. This $80 educational software encourages kids to spend hours exploring space and aviation. It was developed by Knowledge Adventure, a startup based in La Crescenta, Calif., with some help from astronaut Buzz Aldrin.

JST STICK IT N YOUR EAR

your ear ringing? Jabar has compact, hands-free earce that allows you to both hear and speak. The Ear Phone Executive is priced at $150. It can plug into notebook computers. Next: a cellular version.

THE CALLS YOU CAN'T ESCAPE

Life sentence: AT&T's new 700-number can stay with you from cradle to grave. Calls are automatically routed to whatever phone you're near. If you move around, just update your routing system. For $7 a month, you'll never miss another telemarketing pitch.

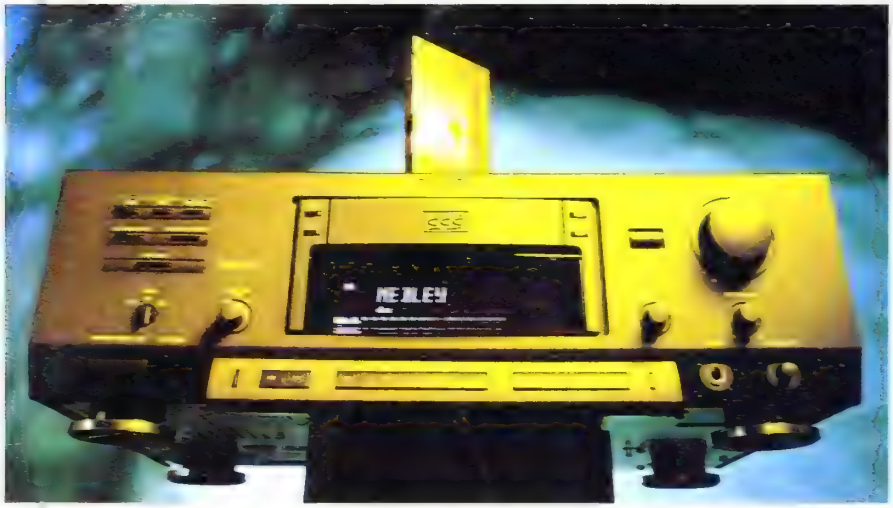
THE CADILLAC OF TRACTORS

Deere asked farmers to describe their dream machines. The result: Sleek tractors built safe and tough, with soundproof cabins, posture-perfect seats, and 29% more glass for visibility. More headlights improve night vision. A turbocharged engine makes for *machismo*. Price of these monsters? Up to $81,400.

THE BEST NEW PRODUCTS

LET'S GO TO THE DIGITAL TAPE

Philips' new Digital Compact Cassette puts the great sound quality of compact discs onto cassettes. Consumers can buy prerecorded DCC tapes or make their own recordings off CDs. Philips also made sure the DCC decks can play regular cassettes, so you can keep your music library. The decks go for $799, prerecorded tapes for $13, and blank tapes for about $8 to $10.



FRAMES TO CUR THE DEJA VUS

Change the picture on your desk every day. The Shoebox looks like a regular frame but a slide-out drawer holds 40 photos. A simple motion and the next picture pops up. Price: $20.

WHAT TO WATCH IN 1993

SHARP'S VIEWCAM: SEE IN COLOR AS YOU SHOOT

Check out the new Sharp [illegible] Viewcam, an 8mm video camera with a 4-inch color liquid crystal display. Hold the camera down in front of you and watch the video as you shoot it. This is also the year for PDAs—personal digital assistants. They're handheld devices that are part personal computer, part fax, part phone, part organizer. All eyes are on Apple's Newton. [illegible] watch the Eo [illegible] video on AT&T.

APPLE'S NEWTON: HANDHELD HELPER

ROCKY MOUNTAIN TIME

For skiers and mountaineers who measure the number of vertical feet skied or climbed each day, Avocet's new Vertech Alpine watch works wonders. At $99, it tells weather, too.

ALL THIS AND AN AIR BAG, TOO

The Jeep Grand Cherokee is a knockout for Chrysler. It's the first sport-utility vehicle to market both ruggedness and passenger car safety. The SU[illegible] offers a driver's side air bag and all-wheel antilock brakes. It starts at $19,700.

How The Bank Of Boston Turned Anacomp Fiche Into A $500,000 Savings.

Managing costs in a tough nomy is a way of business at nk of Boston, a $32 billion retail nk with offices worldwide.

Inundated by an expensive tidal ve of paper, the bank invited us ackle the problem.

They challenged us to develop information storage and retrieval system that would meet the following criteria:

- Demonstrate significant and measurable savings.
- Be the most cost-effective solution and work in conjunction with emerging technologies.
- Improve customer service and enhance graphic replication of reports and statements.
- Satisfy "total" bank needs, not merely selected applications and locations.
- Gain the enthusiastic endorsement of all user groups within the bank.
- Stop the flood of paper!

Our winning recommendation, encompassing Anacomp's unique micrographic hardware, software and service solutions, met and exceeded all of the criteria. The Bank of Boston saw improvement in information distribution, storage and retrieval and achieved a cost savings in manpower, space and paper that exceeded $500,000 in the first year.

Michael Simmons, EVP with the Bank of Boston, suggested "Anacomp should bottle its solution and make it widely available." That's why we decided to run this ad; we listen to our customers.

Let us "Anacomp your company." To find out how, contact P. Lang Lowrey, SVP, Anacomp, Inc., 3060 Peachtree Road, N.W., Atlanta, GA 30305, or call (404)262-2667.

Just What Is Fiche?

Each Anacomp fiche is a 4"x 6" heet of microfilm that holds up o 700 pages of information. In nost cases, fiche can be retrieved and used more quickly than competing media such as mag-netic tape and optical disc. Most mportant, savings in the cost of paper, storage space, mailing costs, and manpower make fiche far and away the most cost-effective way to store and retrieve data.

Anacomp, Inc

ANACOMP

The Image Of The Future

LET US ANACOMP YOUR COMPANY

JOURNEY BEYOND THE SUN

Carol Bartz rose to No. 2 at Sun Microsystems, but she found a bigger challenge. Last April, she became CEO at troubled Autodesk in Sausalito, Calif. She dumped unprofitable operations, beefed up marketing, and made sure the release of the company's computer-aided design program, AutoCAD, came out on time. For the third quarter, ending Oct. 31, the company announced a 33% jump in sales.

ONE BUSY DEPOT

There's no slowing d
Home Depot, the A
based home-improvem
ing giant, and its 63-y
chairman, Bernard Ma
Sales topped $7.1 bill
1992, double those of
years ago, while earni
share are tracking at
compounded rate for
five years. Despite its
growth, Marcus still sp
in the stores, checking
Depot's special selling

POLISHING THE APPLE

John Sculley came into his own at Apple and earned the respect of the entire computer industry. His company posted record revenues and profits from a series of hits such as the low-priced Macintosh Classic and the hot Powerbook, which catapulted Apple to No. 1 in notebooks. Sculley, 53, was an early supporter of President-elect Bill Clinton, and he is at the technological forefront, preaching about a new digital future.

HELLO, MR. CHIPS

Andy Grove did it for Intel—and America—in 1992. He drove revenues up 21%, to $5.8 billion, and pushed Intel past NEC and Toshiba to become the biggest chip seller in the world, the first time a U. S. company has been No. 1 since 1984. Intel dropped prices on its 486 microprocessor just as rival Advanced Micro Devices came on with its clone of the 386. That shifted the market, and profits, to Intel.

LONG-HAUL OVERHAUL

After 4½ years of constant winnowing, John Snow proved that his $9 billion transportation giant, CSX, can deliver the goods. Snow, a 53-year-old lawyer, PhD economist, and former Ford Administration transportation official, has shaken up management, broken up fiefdoms, and replaced a rigid hierarchy with a team-oriented style. The result: Earnings per share, before charges, for 1992 will be up about 18%.

THE BEST MANAGERS

GETTING CANON TO BOOM

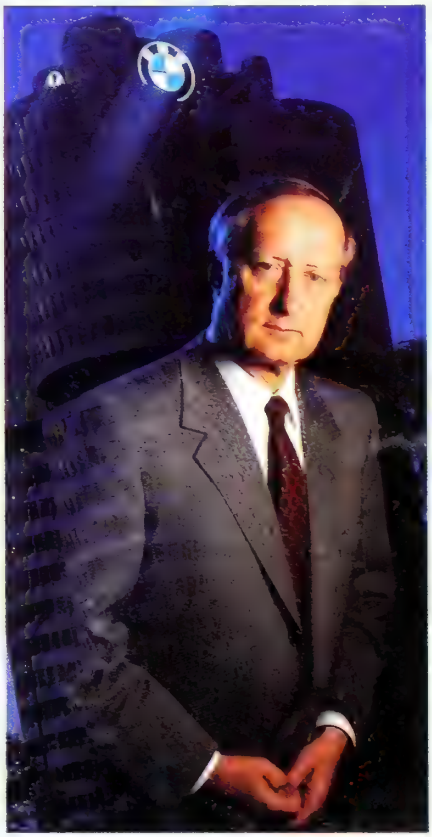
While studying theoretical physics at Tokyo University, Keizo Tamai dreamed of winning a Nobel prize. Tamai, 62, of Canon, now dreams of quintupling Canon's sales to $80 billion by the year 2000. Despite a recession year and a rising yen, Tamai, 62, managed to boost profit margins, forge key alliances with IBM and other companies, and diversify its product portfolio.

OH, WHAT A LOVELY THRIFT

Marion Sandler believes in growth. The 51-year-old president and co-CEO of Golden West Financial made resolution to one recession never. Her firm allowed rate in deposits than savers and lend them money to home buyers. By not jumping into junk bonds or commercial real estate and by keeping cost under strict control, Sandler co-founded Golden West based in Oakland, Calif., for earnings growth of 20% last year.

SURPRISES IN STORE

Nobody doesn't like Sara Lee—or Hanes, Playtex, or Champion, it seems. John Bryan learned about smart acquisitions and savvy marketing from flogging pies, cheesecakes, and pork sausages. Now he is selling packaged-apparel brands through such diverse channels as supermarkets, department stores, and catalogs. Next frontier: Europe and beyond.



BEAUTIFUL BEEMER

While most European auto bosses are licking their wounds, furloughing staff, and nixing investments, BMW's Eberhard von Kuenheim has the pedal to the metal at the Munich-based luxury carmaker. Riding the success of the snappy 3 series, his next challenge is building Beemers in the U.S., at a new factory in Spartanburg, S. C.

SELLING THE WORLD A COKE

Carl Ware is moving fast. He was recently named president of Coca-Cola's new Africa Group, one of five international marketing groups. Before that, he was deputy group president for Coke's Northeast Europe/Africa Group. Ware started out as an urban specialist. He moved to Coca-Cola, was named manager of corporate external affairs in 1986, and jumped to the marketing side in 1991.

A MAN FOR ALL EUROPES

While Europe spent 1992 squabbling over econo and political union, Percy Barnevik, CEO at Swiss-Swedi giant ABB Asea Brown Boveri accelerated his drive to build stateless corporation. The 51-year-old Swedish executive slashed 12,000 more jobs a pushed into Eastern Europe c Southeast Asia. In the U. S., is bidding for the high-speed rail business.

WHOM TO WATCH IN 1993

Keep an eye on Sam Ginn of Pacific Telesis. Wireless communication is hot, and Ginn is getting his own wireless company as Telesis splits itself into phone and wireless operations. George Shaheen is poised to lead Andersen Consulting upward. He tripled Andersen's business-integration consulting, to $2.7 billion, in three recessionary years. Wait till the recovery...

GINN: DOWN TO THE WIRELESS

SHAHEEN: NO RECESSION HERE

IF IT AIN'T BROKE...

Knowing when not to tinker with a company is a gift in itself. Gillette's Alfred Zeien is a master. The 22-year veteran became CEO early in 1991. Rather than revamp Gillette, he stressed execution and groomed a new cadre of international managers. He also produced a hit: a Sensor razor designed for women.

SUNSHINE ON HIS SHOULDER

The boyish Scott McNealy proved to his doubters th he can run a multibillion-dol company by making Sun M systems the model for the er computer industry, including Sun is the most efficient com ny in the industry. But McN still must get his new machi out to market fast and perfe Sun's new operating system.

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THE BEST ENTREPRENEURS

DESIGNS OF THE TIMES

His Woodzig Power Pruner is hot—and so is Sohrab Vossoughi's product-design company Ziba Design in Portland, Ore. Its billings hit $2 million in 1992. By specializing in consumer and medical electronic products, Vossoughi has enlisted a gold-plated client list: 3M, Microsoft, Federal Express, Hewlett-Packard, Matsushita, Sanyo, and Canon.

A SOFTWARE STAR IS BORN

Judy Sims is standing tall. She's CEO of Software Spectrum, based in Garland, Tex., now No. 2 in selling software directly to business. Net income soared 98% in 1992, to $3.8 million on sales of $158.9 million. An IPO generated $19.3 million in capital.

FOR THE ELITIST ON A BUDGET

Howard Schultz, 39, knows a secret: In tough economic times, Americans want "affordable luxuries." Pricey gourmet coffee sold in cozy, Italian-style coffee bars is one such luxury. From its base in Seattle, his Starbucks Coffee has grown to 165 coffee shops with sales of $93 million in 1992. Wall Street loves him: Starbucks' stock price has doubled since its debut in June.

1992 BUSINESS WEEK/DELOITTE & TOUCHE HEALTH CARE SUMMIT

Business and the Future of American Health Care

Like a giant jigsaw puzzle, the American health care system has many complicated, interconnected pieces. Indeed, the complexity of the system, and the personal interest all Americans have in its future, can turn any discussion of U.S. health care reform into a vigorous debate.

The 1992 *Business Week*/Deloitte & Touche Health Care Summit held recently in Washington, D.C. was vigorous from start to finish. Top leaders from business, health care, academia, and government gathered for two days at this by-invitation-only forum to explore the future of American health care—the number one concern of corporate executives nationwide.

Comstock, Inc.

Business's stake is obvious, says Uwe Reinhardt, professor of political science at Princeton University. "Since 1980, the employer cost for health care has doubled every five years. It now averages about $4,000 per employee. By the year 2000, that figure could soar to $17,000." Moreover, total health care spending in 1992 will exceed $800 billion, with business footing about one-third of the bill.

> nce 1980, the employer cost or health care has doubled ery five years. now averages about $4,000 per employee. By the year 2000, that ure could soar to $17,000."
>
> - Uwe Reinhardt
> Princeton University

SHAPING A CORPORATE HEALTH CARE STRATEGY

In the face of these alarming numbers, innovative American companies are crafting strategies to contain their health care costs—without jeopardizing quality or access. One such pacesetter is Xerox Corporation. Helen Darling, the company's manager of health care strategy and programs, reports that Xerox now spends over $250 million a year on health care. By partnering with health maintenance organizations that practice continuous quality improvement, Xerox is leveraging its collective purchasing power to obtain the best health care available.

Says Darling, "Xerox aggressively directs its employees and retirees to quality-driven HMOs. We think this is a positive approach for corporate America. Supporting that strategy, we provide access to information that tells who and what performs best in the system, what risks are involved, and which

alternatives make the most sense."

Pepsico is another company making significant strides in its bid to contain health care costs. In the last six years, for example, the company has kept annual increases under 5% per year through efficiencies earned in its managed care program. Despite that strong performance, Pepsico's director of benefits Burkett Huey believes managed care has yet to fulfill its promise. "Don't forget that managed care is a relatively new idea, and expectations are running far ahead of reality," he cautions.

Still, Huey thinks managed care is probably the soundest approach around: It reins in health care costs; it doesn't require government action; it doesn't restrict scientific or technological innovation; and it doesn't ration care by delaying or denying treatment.

"To drive significant change in the health care system, business leaders must learn more about health care, partner with the health care industry to rationalize delivery systems, and give employees appropriate financial and lifestyle incentives."

ROBERT A. GO
Managing Director
of Health Care
Deloitte & Touche

BUILDING HEALTH CARE COALITIONS

Alongside independent corporate efforts to tackle issues of cost, quality, and access—Pepsico and Xerox are just two cases—are the initiatives of grassroots business coalitions across the country. Typically, these alliances have been spearheaded by executives who are seeking workable health care solutions at the local level.

One such venture: The Memphis Business Group on Health (MBGH). Founded in 1985 by four local companies, MBGH negotiates pricing and group purchasing for acute hospital care, drugs, home health care, medical equipment, and more. Donna Miller, MBGH's CEO, reports that some of its pricing negotiations and managed care programs will soon be extended to small businesses throughout the three-state Memphis area.

To move beyond discounting arrangements, MBGH is forming close partnerships with all its providers. These alliances are distinguished by open communications and continuous information sharing. One sign of MBGH's success: It now represents 39 companies and nearly 200,000 employees in the Memphis region.

The inclusion of small companies in the Memphis program is good news for small business owners since they usually have limited clout in the health care marketplace. According to John Galles, executive vice-president of National Small Business United, "The small business community suffers from trickle-down health care: Abundant charges are shifted to small businesses once the government pays its share and large companies receive their discounts."

The Cleveland Health Quality Choice Program (CHQC) in Ohio is another alliance model—this one a coalition of business leaders, physicians, and hospitals. Its goal is to create an information system that helps companies choose quality hospital care. To start, CHQC is creating a data bank that will ident superior providers and, at the time, measure patient satisfac

"Armed with this purchasi information, coalition memb introduce benefit plan incent that encourage employees to best providers," says Dwain I executive director of the Clev initiative. "Our data-based ap will reward high-quality hosp with more patients, and cons will benefit from better care."

Robert Johnson, chairman CEO of PCS Health Systems, I expresses enthusiasm for this t toward health care partnershi especially those that include p cists. "To manage health care you must bring together the fi patient, physician, pharmacist and plan administrator. The p cist is a value-added professio helps physicians select approp cost-effective drug therapies." Another benefit: Most pharm maintain computer systems w provide instant access to patie files. That enables pharmacist detect potential adverse drug i tions or other problems befor scription is filled.

With responsibility for se hospitals in California and tw Texas, David Reed, president CEO of St. Joseph Health Sys welcomes opportunities to pa pate in business alliances. In f Joseph's currently operates u more than 200 managed care tracts. "Nevertheless, these a ments are short-term fixes," Reed. "Each has its own appro driving down costs, but the cos Joseph's incurs by responding t discrete contract nearly neutral gains businesses realize in the n

Reed applauds long-term rela- between providers and com- They deepen the business ity's understanding of the cost nts of health care—among e patient care, teaching, and care of the uninsured."

A NEW ORDER OF COOPERATION

e commending health care ns—and the efforts of indi- rms—John J. Sweeney, t of the Service ees International Union, O, says, "Health care is too powerful to be ompany-by-company or y-group." In the case of are, he firmly believes that on market forces alone is a tion for failure. Instead, must join with all the ayers to forge a uniquely n pluralistic system.

rt A. Go, Deloitte & 's managing director for are, agrees with Sweeney ers that a new order of tion is needed to drive nt change in the current "Fortunately, the health ustry is ripe for change." . He reports, for example, ce 1988 the median U.S. has made less than 1% n patient services. This spital operates at less than cupancy. As for physicians, care doctors number less % of the U.S. total, com- 50% to 60% in most es. Says Go, "Such statistics he industry—and all stake- -with unique challenges ortunities."

To tap the opportunities, Go urges business leaders to follow this course: Learn more about health care; partner with the health care industry to rationalize delivery systems—thereby reducing waste and excess capacity; and move the purchasing decisions in a prudent direction by giving employees appropriate financial and lifestyle incentives.

PRIVATE INSURANCE, PUBLIC CONCERN

All parties to this debate concur that the growing health care crisis breeds an environment of blame. William P. Link, executive vice-president of The Prudential, sees the insurance industry as an easy scapegoat. "Many people view insurers as close-minded opponents of reform. That just isn't a fair assessment."

Link says insurers welcome reform and, indeed, know that certain industry practices won't be realistic—or even legal—in the near future. Risk selection in the small-employer marketplace, for example, will be virtually eliminated; severe limits will be imposed on preexisting conditions exclusions; and rate restrictions will become far more common. "In short, we envision a changed market, one based on cost, on quality and, eventually, on outcomes."

Many insurers find the most promise in managed care because it meets health care reform's "acid test." Says Link, "It addresses weaknesses in the current system; it promotes low-cost, high-quality care; and it advocates access for those who need coverage."

To that list, Thomas Kinser, executive vice-president and chief operating officer of Blue Cross & Blue Shield, adds this attribute: "Managed care doesn't invite government to be the operator. It suggests, instead, that government define new rules of competition for the private sector." Agreeing with Kinser, Dr. Richard Corlin, president of the California Medical Association, endorses Hawaii's model—an employer mandate concept—where government sets the rules but doesn't run the system.

Carl J. Schramm, president of the Health Insurance Association of America, claims that managed care isn't a choice most people eagerly embrace. "But it has great potential because it disciplines the system." Schramm thinks "managed competition" will eventually prevail since all the players are turning to the government for new ground rules. "Government can't continue to subsidize the overproduction of physicians, the construction of surplus hospitals, and the development of cost-inefficient technologies. In short, government must develop new rules. And those rules have to be set for everyone, not just insurance companies."

ROBERT JOHNSON
Chairman and CEO
PCS Health Systems, Inc.

"End the paper chase. Electronic claims processing can save $8 billion a year. Over half-a-billion prescription claims have been processed electronically in the five years since PCS went on-line. This capability has already saved payers $400 million to $500 million."

THE 1992 BUSINESS WEEK/DELOITTE & TOUCHE HEALTH CARE SUMMIT

A PHARMACEUTICAL PERSPECTIVE

In discussions of health care reform, the pharmaceutical industry—like the insurance business—often suffers harsh criticism. Joseph Davie, president of research and development at Searle, says, "Our industry is frequently berated for high drug prices. But the real problem is that few Americans are reimbursed for their medications."

Convinced that price controls on pharmaceuticals would limit the industry's ability to fund research and development, Davie reports that "pharmaceutical companies now spend $11 billion a year—more than 16% of sales—on R&D." On average, it takes 10 to 12 years for a drug to be discovered and developed. Moreover, only 30% of those drugs that come to market ever return the expense of development.

"R&D is extraordinarily costly," says Davie. "Yet, a steady stream of innovation is needed to fuel medical progress and drive down the cost of health care." He contends that health care reform should address pharmaceutical coverage for all people—while maintaining incentives for innovations. "Otherwise, access to new life-saving drugs will be curbed and, in the long run, health care costs will increase as a result."

BETTER HEALTH CARE DELIVERY

"No matter what direction national reform takes, corporate America will continue to take responsibility for employee benefits," predicts Mary Jane England, president of the Washington Business Group on Health. "To ensure that companies can deliver affordable and appropriate care to their employees, they will have to improve the delivery side."

One sure way to improve delivery, PCS's Robert Johnson suggests, is to "end the paper chase." He cites Health & Human Services estimates that electronic claims processing can save $8 billion a year. "Over half-a-billion prescription claims have been processed electronically in the five years since PCS went online. That capability has already saved payers $400 million to $500 million," reports Johnson.

As the pressure for change accelerates, companies must also identify internal mechanisms that will strengthen the health care system. For example, David Lawrence, chairman and CEO of Kaiser Foundation Health Plans, urges executives to initiate training programs that educate their employees to be better medical consumers. Pointing to work force shifts that are forecast to occur by the end of the 1990s, Lawrence expresses concern that "an under-educated work force will be ill prepared to deal with the technical requirements of health care delivery. Unless business helps tackle this knowledge deficit decisively, our health care system will be even more vulnerable."

A COLLABORATIVE APPROACH

Based on his company's experience with stakeholders across the health care spectrum, Deloitte & Touche's Robert Go says, "The very survival of America's health care delivery system is at risk. Accordingly, providers are now positioning themselves for fundamental change."

Concludes Go, "Corporations unions, and insurers must collabora with hospitals, physicians, and othe providers to rationalize our seriousl outmoded infrastructure. To shape robust system for tomorrow—one ta provides the services companies see a cost they can afford—business dec sion-makers must come to the table with a thorough knowledge of U.S. health care, and an acute sense of th fundamental change needed."

Judith Feder, co-director of the Center for Health Policy Studies and advisor to President-elect Bill Clinton agrees with Go and warns business lea ers to avoid the sidelines on this issue.

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"Pharmaceutical rese is never as expensi disease. It's estima at least half the mi progress in the ne years is likely to co from drug research development. No o segment of the hea industry has the po to save as much m pharmaceutical res

you do nothing, costs will soar to $1.7 trillion during the 1990s, posing huge threats to the profitability a growth of your companies."

The role business will finally play in national health care refor remains vague. Yet it is clear tha the leaders of competitive compa nies will continue to put their firms' health care priorities—cos quality, and access—at the top o their corporate agendas. And bu ness leadership is sure to be a cri cal piece of America's solution to the health care puzzle. •

Written by Barbara H. Peters and Jam Peters, New York-based business writers.

THE BEST PUBLIC SERVICE

ON A STORM OF HELP

After Hurricane Andrew blasted Florida's southern tip and slammed into Louisiana on Aug. 24-25, companies, including Ryder, AT&T, and Burger King quickly responded. PepsiCo distributed water and ice, while its unit, Pizza Hut, served some 120,000 hot meals to hungry residents in the days after the disaster.

NOT JUST PIE IN THE SKY

Greyston Corp. in Yonkers, N. Y., makes upscale desserts for such famous eateries as Sardi's and Cafe des Artistes. The fast-growing bakery, founded by Bernard Glassman, 53, once an aerospace engineer, now a Zen Buddhist priest, hires only the "chronically unemployed," trains them, and pays $7.75 an hour.

ANSWERING THE CALL

The Los Angeles riots brought home the despair and anger felt by many trapped in American cities. IBM will provide $35 million to help train people and give them a chance at a solid future. The training will take place at 10 centers, several of which will be tailored for learning-disabled people.

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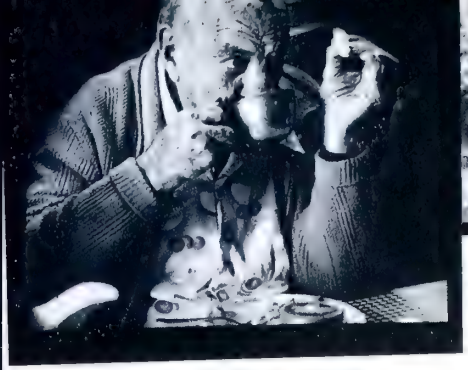

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at we really didn't have a "concept," we
ted to be nice to people and offer good
e said, "It will never fly." He was wrong.
ice works. Share Our Strength recog-
is, too. They're fighting to end hunger.
y understand that those of us who take
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so all that food goes to people who need it.
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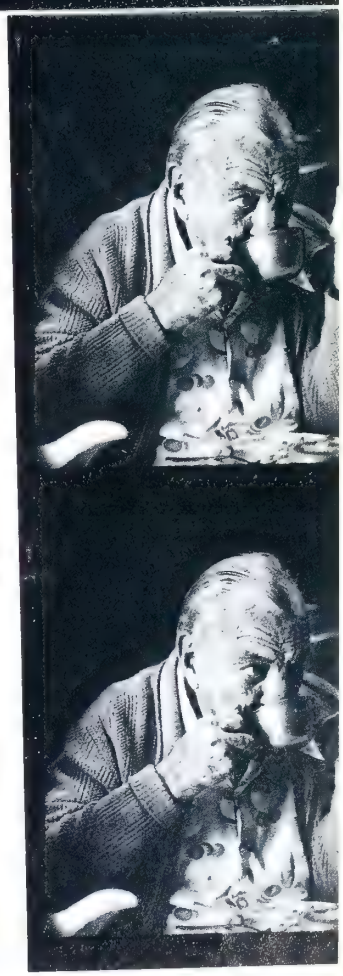
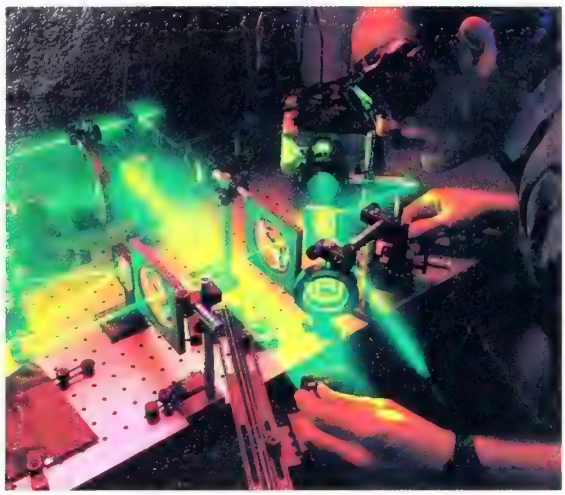


THE BEST NEW IDEAS

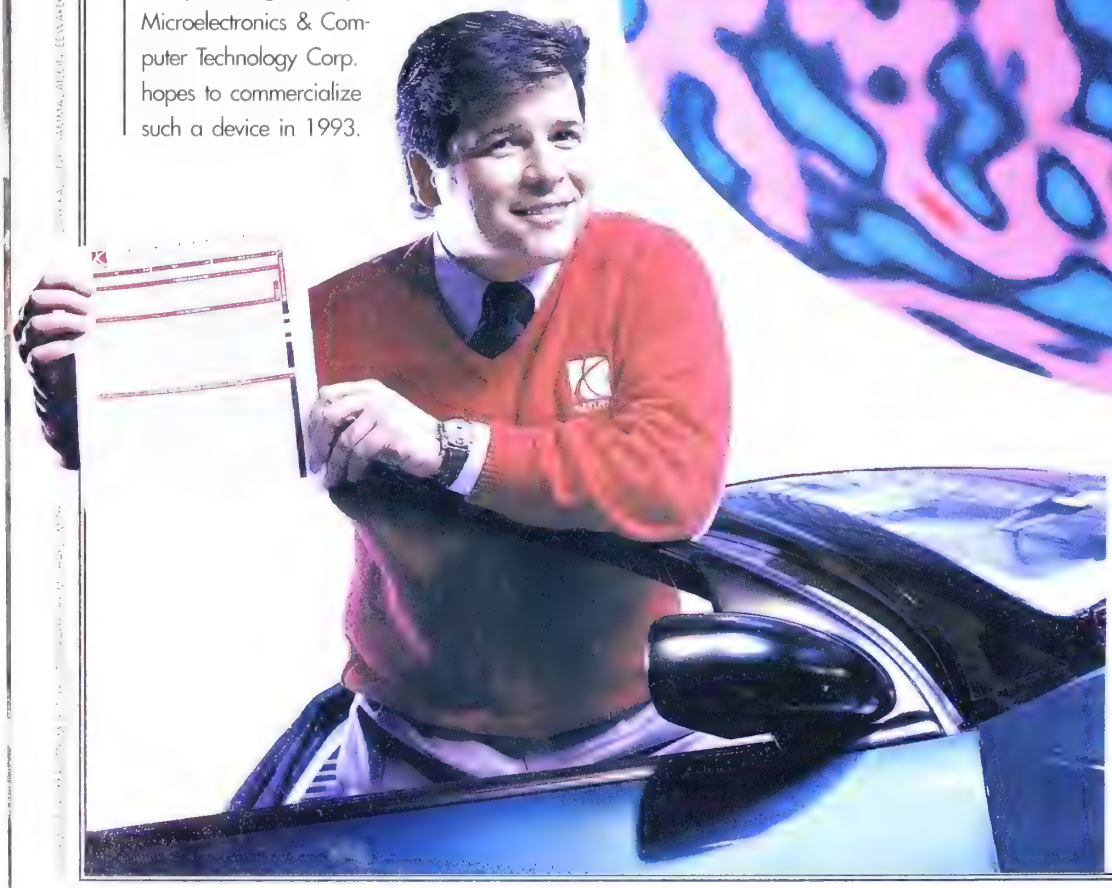


MEMORIES ARE MADE OF THIS

Researchers are developing exotic computer memories for the growing information flood. Holographic storage, using laser beams to "write" data as holograms inside a tiny crystal, is a promising technique. Microelectronics & Computer Technology Corp. hopes to commercialize such a device in 1993.

'LIKE LOOKING AT GOD'

Scientists may have solved a puzzle of the cosmos. If the Big Bang spread matter uniformly through the universe, why was it clumped in galaxies and stars? Using an orbiting satellite, researchers found tiny lumps in the microwave that may explain galax you're religious," says Smoot of Lawrence Ber Laboratory, the experim chief scientist, the disco "like looking at God."



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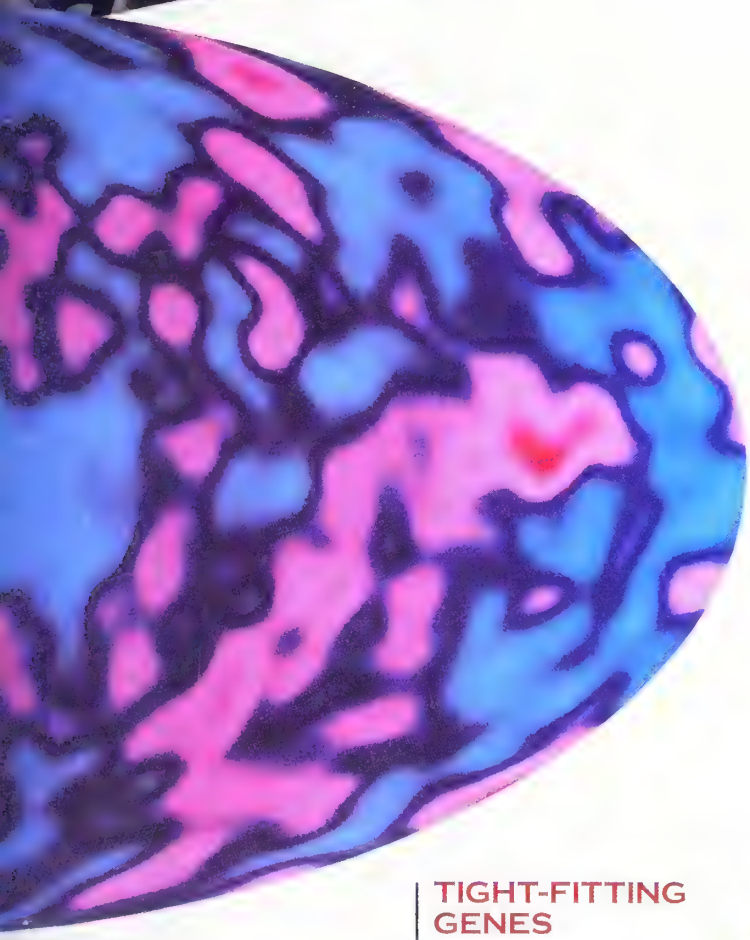
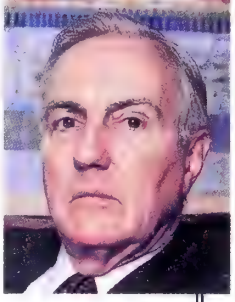
TREAT IT LIKE A BUSINESS

Fed up with unresponsive bureaucrats and poor public services? Many governors, mayors, and federal agency heads are embracing "entrepreneurial government." The plan: Shed middle management, empower employees, and encourage competition between private and public sectors. Guru David Osborne says decentralization of its budget made the Fairfield (Calif.) police department more efficient at no additional cost.



OUTER CIRCLE ACTIVISTS



Outside directors such as John Smale of General Motors (top) and Rawleigh Warner of American Express are finally taking more active roles in dealing with ineffective managements. Smale and Warner join a growing list of outside directors—in companies ranging from Compaq to Allied-Signal—who demand that chairmen and CEOs look out for shareholders' interests and be held more accountable for their companies' performance.

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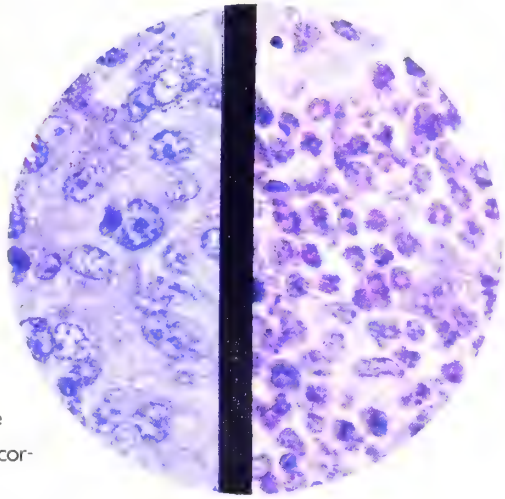
TIGHT-FITTING GENES

By identifying genes, scientists are making headway against cancer. Many cancers don't develop unless certain genes, called tumor suppressors, are flawed. Their presence can determine cancer risk. Physicians are trying to cure many diseases by inserting corrective genes.



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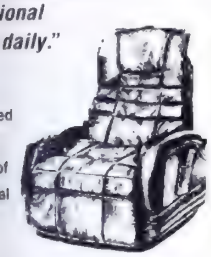

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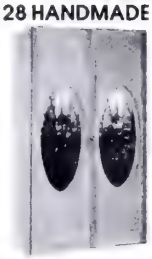

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EDITED BY AMY DUNKIN

Relocating

FOR GLOBETROTTING EXECS *EN FAMILLE*

In the global environment, opportunity can knock suddenly. Called in by the boss, you learn the company plans to open a foreign subsidiary and wants you to move abroad to get it rolling. It means money, a big title, and experience that will heighten your value on your return. Any career-minded exec may see the offer as unrefusable. But be aware that relocating is a major undertaking. It may involve packing up a family, selling a beloved home, and arranging a zillion other personal and financial details. So consider some advice—and warnings—from globetrotting vets.

Take Mark Terry, who agreed to move with his pregnant wife and young daughter from Vermont to London a few years ago to boost exports for New England Digital. The company's attitude, he says, was: "Get on a plane, find a place to live, we'll send the stuff over, and you'll be O. K." Now an executive at JBL, a stereo equipment maker in California, Terry says he couldn't anticipate some of the problems he would face. Among them: The family's 14-year-old dog had to be put to sleep when a vet said it wouldn't withstand six months in quarantine, as required by British law.

COMPLICATIONS. Housing, both abroad and at home, can be the most vexing worry. Since they plan to stay in the foreign country a few years at most, most execs choose to rent overseas. Finding the right place may require both spouses to make at least one trip abroad, usually at company expense. But if that hurried search doesn't turn up a home—or the proper school, if children are coming, too—you might have to foot the bill for a second trip. And renting a place overseas can be much more complicated than it is in the U. S. Some property owners may demand illegal fees or payment in U. S. dollars. Agreeing to the deal could get you expelled or jailed.

The problems cut both ways. Dale Morley, a Londoner who recently transferred to New York as vice-president for sales and marketing at Avis International, found that trying to rent out his home in England was so complex he opted to sell the place. Americans prepared to move abroad face a similar decision. IBM and other companies, in plusher times, aided execs on the move—even to the extent of buying an empty home left behind—but few do so now. So, with a deadline looming, you and your spouse must deal with rental agents, brokers, prospective buyers or tenants, and other details of real estate transactions.

A danger is that sellers under pressure to act
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rray of 220-volt equipment. It can include many more items than might first come to mind: a toaster, microwave oven, food processor, stereo, vacuum cleaner, electric heater, even a refrigerator, washing machine, and dishwasher. If you plan to take along your home computer and printer, you'll need some good-sized transformers—"not the little $10 kind you can use for an electric razor," says Ken Ross. They cost $100 and up at ABC Trading in New York, which specializes in 220-volt equipment by GE, Maytag, Hitachi, and other worldwide manufacturers. Also worthwhile in countries where power failures are common: a small device called an uninterrupted power supply (about $150). It keeps your PC running for about 10 minutes longer, so you can save on-screen data.

An all-at-once outlay for a houseful of appliances can eat up a big chunk of the higher salary you've been promised. And expect additional costs. Although you can exclude from U. S. taxes the first $70,000 earned from a foreign source, you will want to ask an international accounting firm about how the foreign country taxes resident aliens. Some have higher rates than the ones at home. And in developing nations with low cost-of-living levels, you may find that a new car, along with such necessities as property and life insurance, are far more expensive. "Then there are all the little things," says Terry. "Like having to buy new Christmas lights when you know you've got perfectly good ones in storage." A tip: When you agree on salary, insist that the figure be reviewed after six months in the new post.

Still, the promise of higher income, the chance to run your own show, and adventure in an exotic locale can be irresistible. And living the dream for a short time can be heady—enough to make some execs feel deflated upon returning home. But with so much else to worry about, that's probably the last thing on your mind. *Don Dunn*

HOW TO SECURE YOUR SOCIAL SECURITY

After more than a decade of furnishing advice on retirement matters, among other things, in the Personal Business pages of this magazine, I believe that experience is still the best teacher. Preparing to retire and move as a "trailing spouse" to Harare, Zimbabwe, for the next two years, I recently visited a Social Security office to ask Uncle Sam to start my hard-earned stream of monthly benefit checks. Some lessons learned:

You can order a form at any time to mail in for an estimate of your benefits at various ages. (Call 800 772-1213.) But the clerk who processes your application cannot give an accurate figure. The number is based on your earnings averaged over your working career, and there are annual cost-of-living adjustments. So you won't know the exact amount until you get official notification from Washington, about two weeks after your application is filed.

Even though you think your records are in good shape, be prepared for surprises. The computer listed me as 64, a year older than I am. If I hadn't spoken up and set the record straight, the error actually would have worked to my advantage. Benefits are reduced by 6⅔% if you retire at 64, compared with 13⅓% if you stop working at 63 and 20% at 62 (the earliest possible age).

To apply for benefits, you must bring proof of age—a birth certificate or, if you don't have one, school records. You don't need to produce your Social Security card, provided you know your number. Be ready also to show your most recent W-2 form or tax return if you are self-employed.

If you present a voided check or deposit slip with bank or savings-account information, Uncle Sam will deposit your checks directly into your account. Each month's payment should arrive on the third day after the end of the month.

UNLISTED? A government booklet, *Retirement*, answers many questions about Social Security. It's also free from 800 772-1213. You can call the same number to schedule an appointment to apply for benefits at a nearby office. And you should apply three months before you want checks to start.

There's a good chance that benefits will be taxable—if you and your spouse file separate returns or if you file jointly with combined income above $32,000.

One other point: In the U. S. Government pages of the Manhattan telephone directory, the addresses for Social Security offices are not listed under "S." They're under "H," for Health & Human Services. *D.D.*

Autos

STICKERS THAT WON'T STICK IN YOUR CRAW

Throw in an option or two, and you can drive the price of a basic automobile above $20,000 faster than an air bag inflates. But check out the 1993 Honda Civic, Ford Escort, and Geo Prizm, and you're in for a different kind of sticker shock: All three runabouts offer ample space, decent performance, and cool styling for under $11,000—making them rivals to a handful of other cars, including GM's Saturn (BW—Aug. 17).

Starting at a mere $8,400, the aerodynamically smooth Civic hatchback is less square and clunky than its forebears. A hip 1.5-liter, 70-horsepower engine responds quickly in traffic. And power brakes and a driver's air bag are standard equipment. The CX gets 42 miles per gallon in the city and 48 on the highway, compared with mileage in the high 20s and 30s for the two American cars. It has the most comfortable seating, too. The interior allows plenty of room for driver and front passenger, but riders may be a bit cramped in the back.

THE CIVIC HATCHBACK: ZIPPY, EASY ON THE GAS—FOR $8,400

Ford's new Escort LX line of two- and four-door hatchbacks and a station wagon is known more for basic transportation. Still, standard features that include power steering, air-conditioning, rear-window defroster, and an AM-FM radio make Escort's base price of $10,899 a noteworthy value. Ford even throws in a rear-window wiper and luggage rack on the wagon. With a new $757 sport option offering rear spoiler, 14-inch aluminum wheels, tachometer, cloth seats, and leather-wrapped steering wheel, you've got a snazzier version, similar to the $13,000 Escort GT. Unfortunately, the wrapping on the package is more appealing than what is inside: a noisy 1.9-liter engine and a chintzy plastic interior.

THE ESCORT GT: A SNAZZIER—AND PRICIER—COUSIN OF THE LX

More inspiring is the redesigned Geo Prizm. The new GM-Toyota compact is and wider than its pr sor, giving it more r legs and heads than th and Escort, even for b passengers. And at price of $9,995, it's cheaper than its smoot dy styling would su Still, Prizm's 1.6-lite horsepower engine is peppy, and standard ment is limited: driv bag, power brakes, a safety locks. A rad player jacks up the p $502, air-conditioning cool $745, and a rear- defogger costs $104. B with options, you'll b antly shocked by t price. *Greg*

Smart Money

SUPERSAFE MUNIS WITH TIP-TOP YIELDS

If you're risk-averse and want a tax break, most prerefunded municipal bonds offer the safety of government-backed Treasuries with the tax status of conventional munis. As an added benefit, they carry slightly higher yields. "They're one of the best-kept investment secrets," says Terence Tracy, first vice-president of Shearson Lehman Brothers' municipal bond department.

Prerefunded munis, or pre-res as they're called in the biz, are municipal bonds usually backed by Treasury securities instead of the guarantee of a city or state. The bonds, originally issued when interest rates were high, can't be retired right away when rates later fall. So the issuers sell new bonds at lower rates and use the proceeds to buy Treasuries, which they then put in escrow to cover the old bonds at the first call date. Since the money is set aside in advance to pay off the pre-res, "they're as good credit-wise as Treasuries," says Bank of New York Senior Vice-President James Cooner.

A TYPICAL PRE-RE PAYOFF

	Jacksonville (Fla.) pre-re	Fairfax County (Va.) muni
INTEREST	7¾%	4%
YIELD	4.17%	3.90%
COST PER 100,000	$111,063	$100,255
PRINCIPAL	$102,000	$100,000
INTEREST	$23,250	$12,000
PROFIT	$14,187	$11,745

Duration of bond 10/1/92—10/1/95

DATA BANK OF NEW YORK

Many investors overlook pre-res, says Shearson's Tracy, because the bonds sell at a premium. People think they're losing money if they pay $110 for a bond and get back $102 at the call date. But to compensate for this premium, pre-res offer slightly higher yields than top-rated conventional munis. "They get less back at maturity," says Tracy, "but will have received much more in income during the life of the bond."

As with all bonds, rapidly rising interest rates and falling bond prices could prompt you to sell before maturity, says Cooner. But he doesn't see rates moving much higher in the near future. Even if rates do go up, pre-res lar to other premium lose value more slowl par bonds because interest is so high. why they function as a against rising rates.

Not all pre-res are equal. A rare issue backed by certificates posit, or agency bond as Fannie Maes. The not be quite as sec Treasuries, warns Tra

An occasional iss may have "sinking fun reserves from which can be redeemed bef call date. So ask bef buy. Pre-res, which are ly called three to fiv after you buy the available on the sec market through any or financial adviser w sells munis. The minim vestment is typically Commissions range fr to $7.50 per each $1, vested. *Pam*

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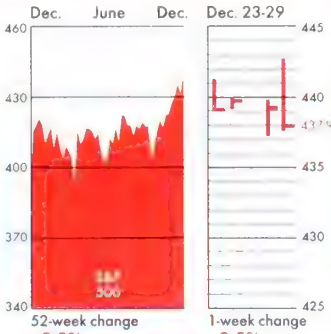
vestment Figures of the Week

ARY

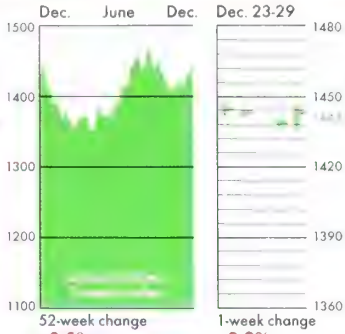
week in the financial ces meandered aim- t volume, with many nting themselves be- idays. The biggest week came on Dec. e Dow Jones industrial 23 points. Computer- ram trading contribut- cline, as did poor IBM and 3M. Be- IBM debacle, com- s now lead the list of ming stock issues over ith.

STOCKS



52-week change +5.5%
1-week change −0.5%

BONDS



52-week change +0.5%
1-week change −0.2%

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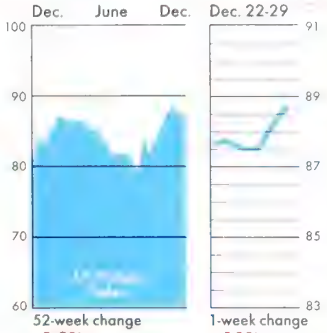


52-week change +8.3%
1-week change +1.1%

ET ANALYSIS

KS	Latest	% change Week	% change 52-week
INDUSTRIALS	3310.8	−0.3	4.6
MPANIES (S&P MidCap Index)	158.8	0.9	8.9
PANIES (Russell 2000)	216.9	1.0	15.4
IES (Russell 3000)	250.1	−0.2	7.3

STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
NANCIAL TIMES 100)	2847.8	0.2	17.7
KEI INDEX)	17,285.6	−2.3	−24.8
SE COMPOSITE)	3314.9	0.0	−5.4

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.25%	3.27%	3.96%
30-YEAR TREASURY BOND YIELD	7.36%	7.34%	7.45%
S&P 500 DIVIDEND YIELD	2.82%	2.81%	3.02%
S&P 500 PRICE/EARNINGS RATIO	24.3	24.5	23.2

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	420.3	419.0	Positive
Stocks above 26-week moving average	58.9%	58.7%	Negative
Speculative sentiment: Put/call ratio	0.35	0.36	Neutral
Insider sentiment: Vickers sell/buy ratio	2.56	2.56	Negative

TRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

EK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
CTURED HOUSING	13.7	44.9	SKYLINE	19.9	42.0	21 1/8
DUCTORS	11.7	69.8	INTEL	27.3	90.3	90 3/8
URANCE	10.6	36.8	JEFFERSON-PILOT	21.1	32.3	49 1/2
CE AND DEFENSE	10.5	4.3	NORTHROP	20.0	39.4	34 1/2
ASTING	9.2	29.5	CAPITAL CITIES/ABC	15.1	24.3	515 3/4

EK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
ER SYSTEMS	−10.7	−28.2	IBM	−21.6	−42.1	51 3/4
RING AND CONSTRUCTION	−8.4	−2.9	FLUOR	−10.5	−2.9	41 3/8
CIAL SERVICES	−6.8	0.4	SAFETY-KLEEN	−22.4	−3.5	23 7/8
	−6.0	24.7	MATTEL	−6.6	19.3	24 7/8
L EQUIPMENT AND SERVICES	−5.7	−4.7	SCHLUMBERGER	−8.2	−9.9	55 5/8

AL FUNDS

MORNINGSTAR INC

otal return	%
ROWTH	15.1
	12.1
TED KINGDOM SMALL COMPANY	11.8

al return	%
SELECT SAVINGS & LOAN	60.7
K	53.5
SELECT REGIONAL BANKS	49.7

LAGGARDS

Four-week total return	%
EQUITY STRATEGIES	−5.6
FIDELITY SELECT ENERGY SERVICE	−5.1
QUEST FOR VALUE GLOBAL EQUITY	−5.1

52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−59.3
UNITED SERVICES GOLD SHARES	−51.2
MONITREND GOLD	−27.6

TIVE PORTFOLIOS

DATA RESOURCES INC

ounts
the present
10,000
one year ago
ortfolio

es indicate
tal returns

Treasury bonds
$11,021
+0.32%

U.S. stocks
$10,897
−0.48%

Money market fund
$10,286
+0.05%

Gold
$9,484
−1.48%

Foreign stocks
$9,274
−1.20%

is page are as of market close Tuesday, Dec. 29, 1992, unless otherwise indicated. Industry e S&P 500 companies only; performance and share prices are as of market close Dec. 28.

Mutual fund returns are as of Dec. 25. Relative portfolios are valued as of Dec. 28. A more detailed explanation of this page is available on request.

Editorials

A PROSPEROUS NEW YEAR IS UP TO BUSINESS

It's all very well for economists to forecast better times, but unless something is stirring out in the real world of production lines and order books, nothing may happen. Well, this time it looks as if the real world is cooperating, which bodes well for a truly happier new year. With only a few exceptions, most of the industries covered by BUSINESS WEEK's Industry Outlook are seeing signs that 1993 will be a much better year than 1992 (page 56).

Indeed, what's impressive is the breadth of the upsurge. Industries that did well in 1992 expect to do better. For example, U. S. chipmakers, whose share of the world market soared in 1992, are looking for an additional 20% increase in revenues in 1993. Chemical companies, whose aftertax profits jumped about 12% in 1992, expect a 13% jump this year.

Even the industries hit hardest by the recession are feeling better about their prospects. Retailers are seeing rising sales. Homebuilders, especially the bigger ones, expect their first decent year since 1989. And two of the most woebegone sectors—steel and autos—are on the mend. Big steelmakers are expecting demand and prices to rise this year, enough to enable them to make money after losing a total of $2.5 billion over the past two years. U. S. carmakers, too, are looking to regain profitability this year as vehicle demand increases.

With so many industries reporting growth, it's safe to assume the recovery will continue. Yet one essential ingredient is still missing: a healthy dose of business confidence—animal spirits, if you will—about the U. S. economy. Profits are up, but most businesses remain hesitant to hire and reluctant to spend on new equipment—except on computers. But that lean-and-mean mode that got companies through the recession could now become counterproductive. The economy is clearly recovering: It's now time for companies to take advantage of new opportunities, even if it means adding some workers or spending some money. That's the only way U. S. industry—and the U. S. economy—will prosper.

KEEP THOSE OPEN-SKY SIGNALS LOUD AND CLEAR

Don't shed any tears over the collapse of British Airways' attempted rescue of troubled USAir Inc. The deal was scuppered by the inability of John Major's government to marshal enough political support for an Anglo-American open-skies treaty, which Washington had rightly made a precondition for approval of a $750 million BA infusion into USAir. But in an increasingly internationalized industry, improved access to 40% of all the world's airline passengers makes so much sense for the Brits that the deal could well be back again. Even more important is the message the hard-nosed Washington position sent London and other capitals about U. S. determination to obtain equal opportunities in foreign markets.

BUSINESS WEEK has long argued that reciprocity cess must be the key to approval of investments in U S lines by foreign carriers. America's hard line is eve important now that other European states, including and Germany, and Japan are talking about abroga fudging existing bilateral treaties. The message r unequivocal: Access must be as level as an airport r

At such a point in the evolution of the global airlin try, it is disheartening to learn that former Denver and soon-to-be Transportation Secretary Federico Pe admirer of a law professor known to the airlines as " reg." Of course it may not be true, as is said on the F Peña and Paul S. Dempsey of the University of agree Dempsey would make a splendid assistant se for policy and international affairs. We hope not. Ado benefits, and the U. S. consumer has done pretty we deregulation. We should jawbone Europeans into lating, not trying to breathe life into a discredited p

ONE EUROPEAN MARKET ONE STEP AT A TIME

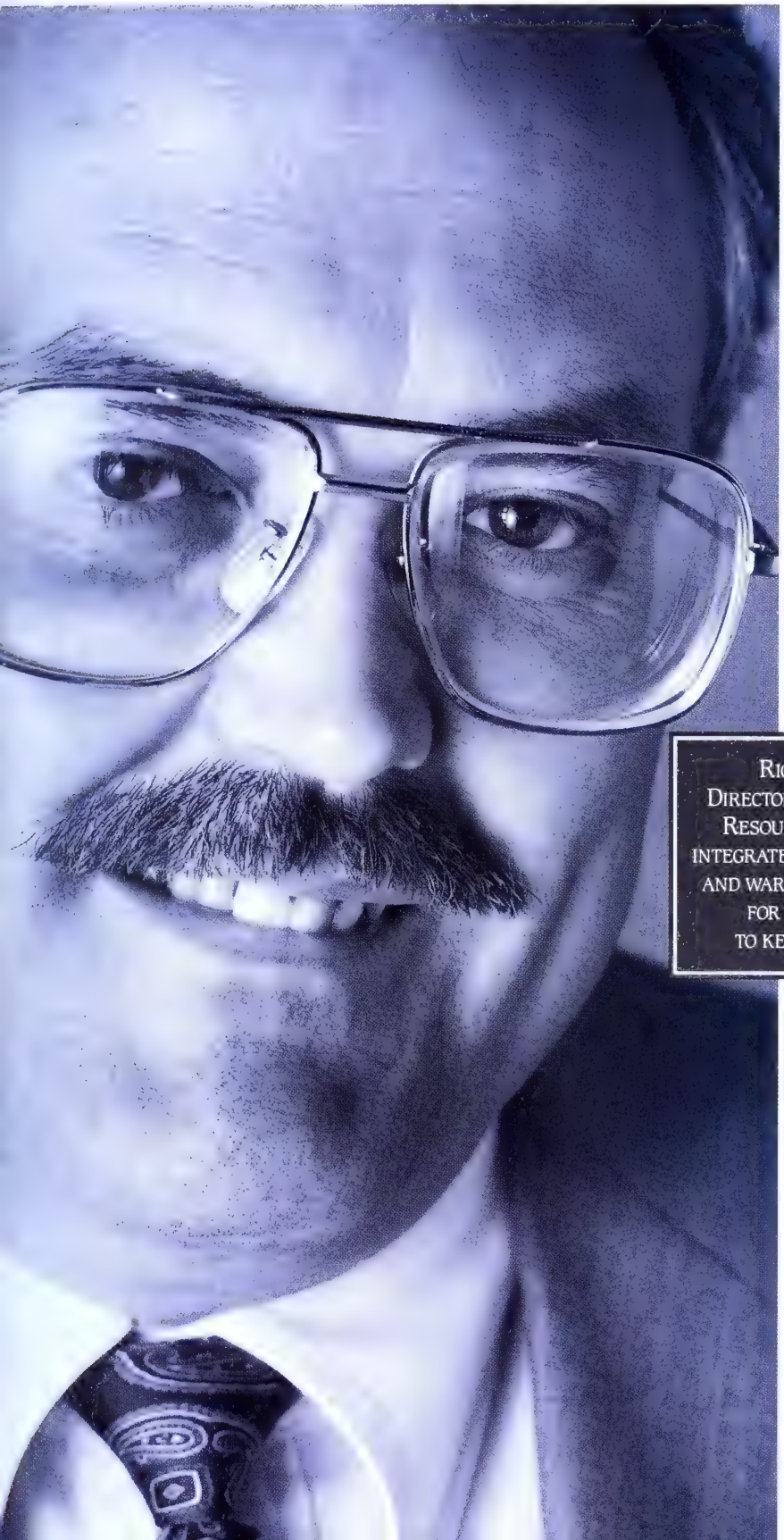
The Jan. 1 ritual of ringing out the old and ri the new was supposed to have had more t usual significance in Europe this holiday seaso peans expected to unveil a unified economic and superpower to rival the U. S. and Japan. Instead, 199 into a year of fragmentation. That has cast a pall o cork-popping, but Europe is probably better off bui dream one step at a time.

The EC's leaders have only themselves to blame fo shocks to Europe's exchange-rate system and preter economic union. As the cold war's global struggle ga to a voter focus on bread-and-butter issues, Europe's stuck to abstract notions of pan-European homogene as recession bit, Brussels insisted that divergent ec could be made to conform to a model of German m conservatism that itself came under strain after th Wall fell three years ago.

Europe still has some historical ghosts to exorcis it can devote itself to building an economic union. Its have yet to act as one against the tragic nationalism in the former Yugoslavia. And they have yet to deci historical model they'll follow for coping with the co the Soviet Union. Will it be the Marshall Plan that Europe after World War II? Or the disengagement t duced chaos, hyperinflation, and fascism after World

Europe's shining accomplishment this New Yea nearly completed work on its single market. Over t despite economic cycles, the free flow of goods, s and labor to a potential market of 375 million peop countries will steadily deliver benefits to consum modernize tradition-bound economies. As consume the logic of a single currency—and even greater union—will prevail. A longer timetable may not satis of Europe's older leaders. But it will pave the way ocratic, grass-roots support for closer integration t sound the biggest change between old and new.

Software Artist.



Mention the word silverware and 87% of Americans say Oneida.

It's the 112 year-old brand name that symbolizes quality, value and world-famous design.

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RICK MUNGER, DIRECTOR OF INFORMATION RESOURCES, USES CA'S INTEGRATED MANUFACTURING AND WAREHOUSE SOFTWARE FOR THE AS/400 TO KEEP ONEIDA #1.

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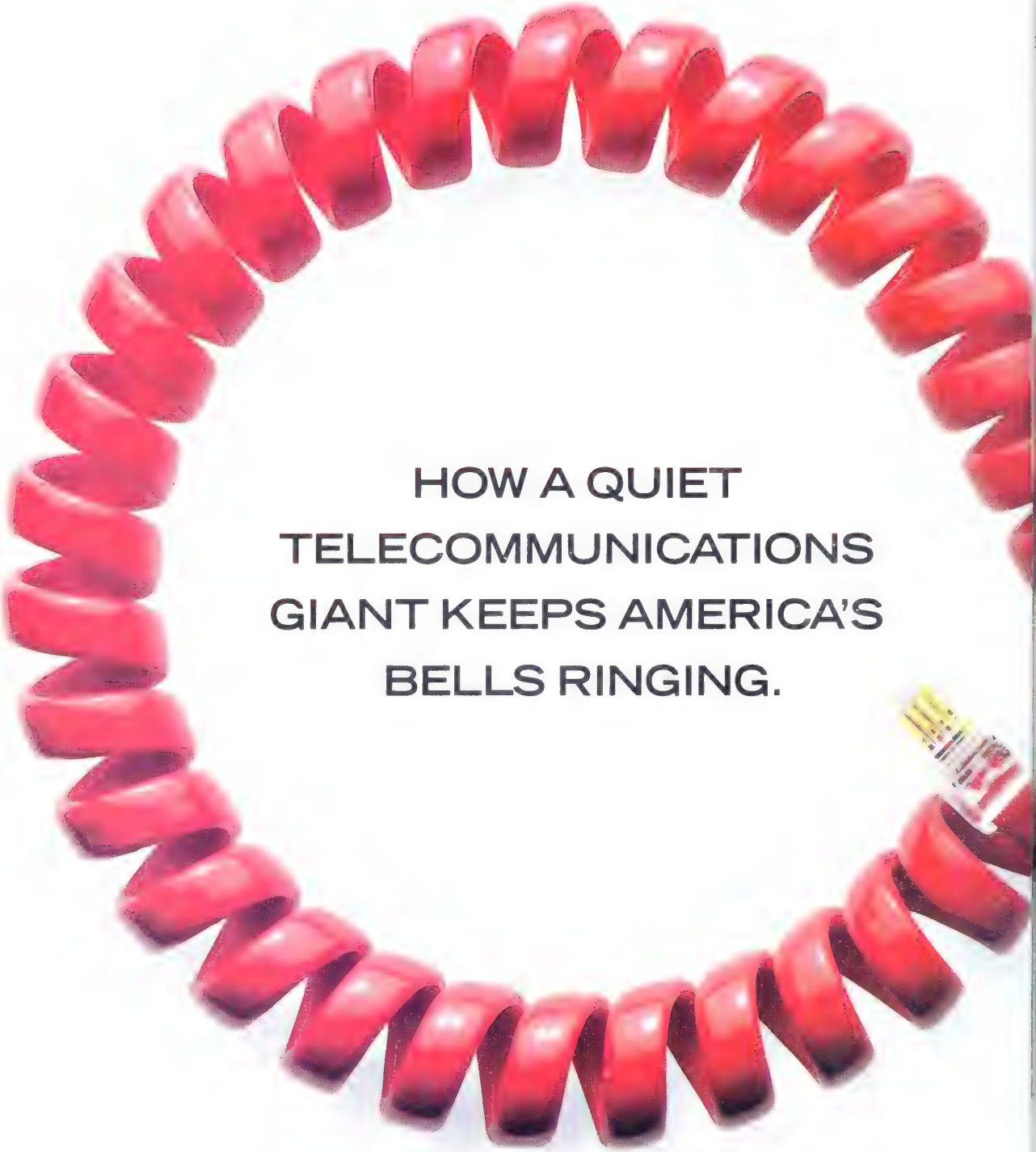

HOW A QUIET TELECOMMUNICATIONS GIANT KEEPS AMERICA'S BELLS RINGING.

INTON HOW HE'LL DEAL WITH JAPAN

IBM WHAT IT'S REALLY WORTH

INVENTORS HOW THEIR WORLD IS CHANGING

BusinessWeek

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The Power of MUTUAL FUNDS

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HOW THEY'RE RESHAPING INVESTMENT, FINANCE, AND THE ECONOMY

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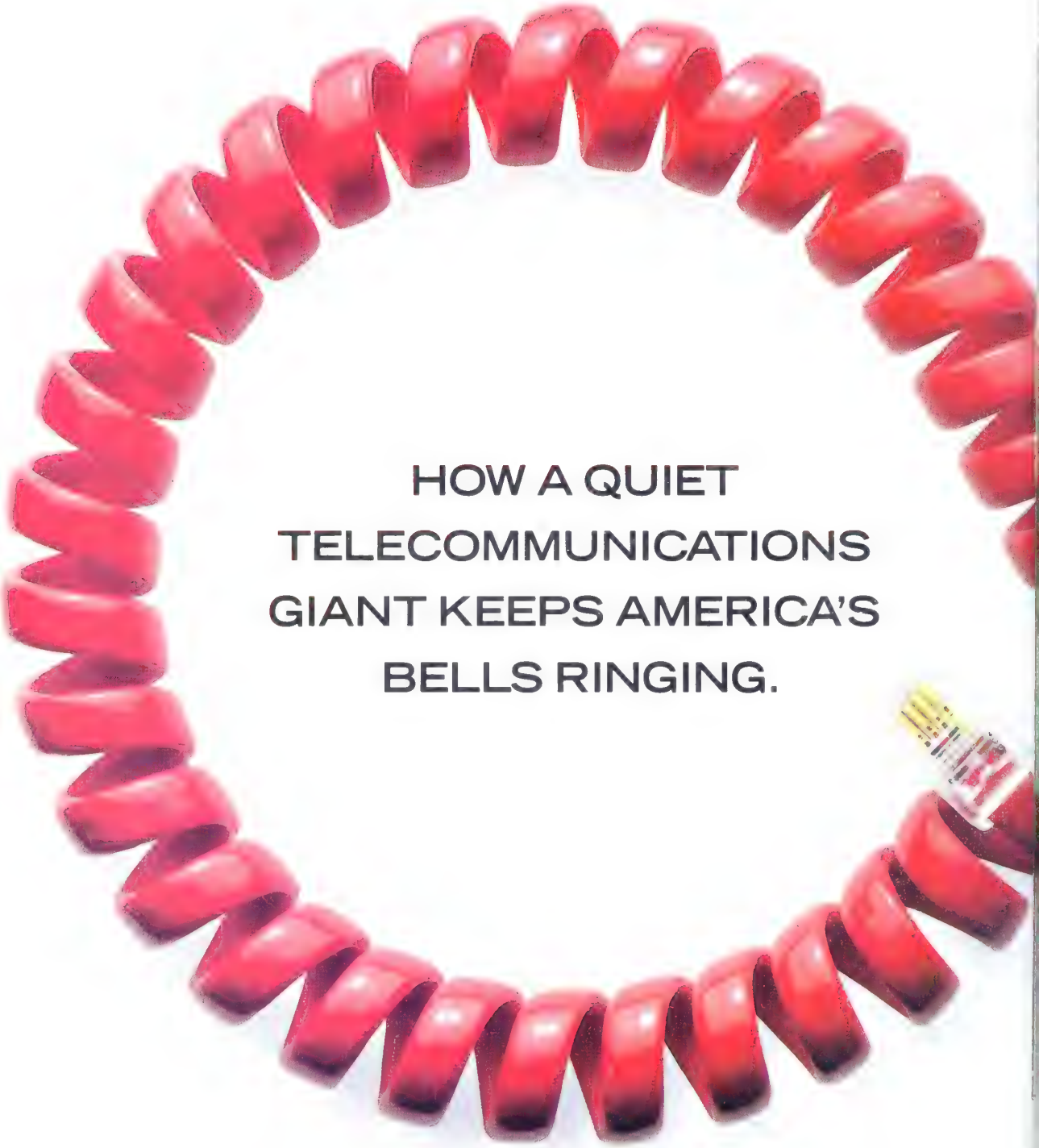

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HOW THEY'RE RESHAPING INVESTMENT, FINANCE, AND THE ECONOMY

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Statistics show they c

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both end up driving it.

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For additional information on Mercedes-Benz call 1-800-747-8635.

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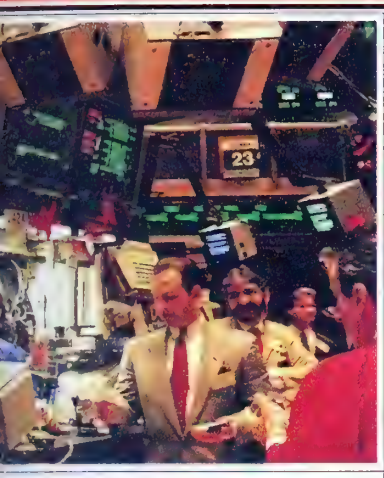
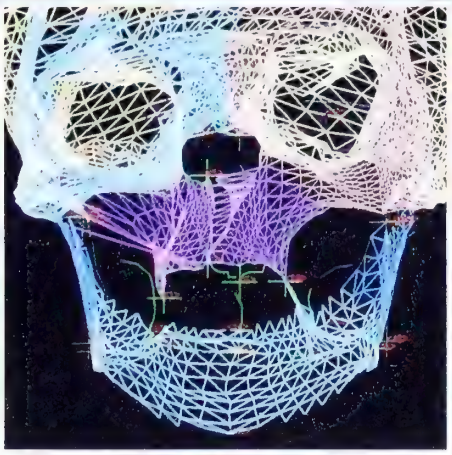


OH, THOSE IBM SHARES: SOME WANT TO PUNISH THE STOCK, OTHERS WANT TO HOLD ON TO IT. BUT A CLOSE LOOK AT BIG BLUE'S VALUE SHOWS UPSIDE POTENTIAL



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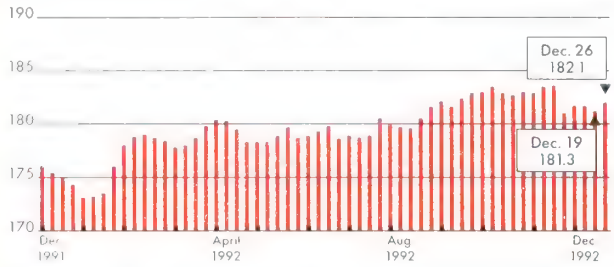
BusinessWeek Index

PRODUCTION

Change from last week: 0.4%
Change from last year: 4.4%

1967=100 (four-week moving average)

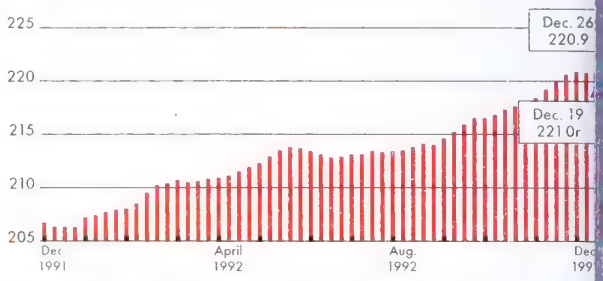


The production index rose in the week ended Dec. 26. Output of steel, autos, trucks, electricity, and lumber posted seasonally adjusted gains. Crude-oil refining was unchanged, and data for paper and paperboard were not available. Rail-freight traffic registered a steep holiday decline, due to partly inadequate seasonal adjustment. Coal output also fell. Before calculation of the four-week average, the index dropped to 176.4 from 182.8 the week before.

BW production index copyright 1993 by McGraw Hill Inc

LEADING

Change from last week: −0.1%
Change from last year: 7.0%



The leading index dipped in the week ended Dec. 26. A sharp decline in growth rate of real estate loans and a slowdown in the pace of the M2 mo supply caused the weakness. On the plus side, stock prices rose, and bond yie edged lower. Also, there were fewer failures of large businesses, and the gro rate of industrial materials prices accelerated. Before calculation of the four-w average, the index fell to 220.5 from 221.2 the week before.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/2) thous. of net tons	1,762	1,684#	1.4
AUTOS (1/2) units	0	73,621r#	NM
TRUCKS (1/2) units	0	59,701r#	NM
ELECTRIC POWER (1/2) millions of kilowatt-hours	54,120	57,257#	2.1
CRUDE-OIL REFINING (1/2) thous. of bbl./day	13,311	13,176#	0.5
COAL (12/26) thous. of net tons	14,461#	19,749	10.4
PAPERBOARD (12/26) thous. of tons	NA#	785.2r	NA
PAPER (12/26) thous. of tons	NA#	745.0r	NA
LUMBER (12/26) millions of ft.	267.9#	490.1	23.9
RAIL FREIGHT (12/26) billions of ton-miles	15.9#	22.1	9.7

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/6)	125	125	126
GERMAN MARK (1/6)	1.63	1.62	1.56
BRITISH POUND (1/6)	1.54	1.51	1.83
FRENCH FRANC (1/6)	5.56	5.52	5.31
CANADIAN DOLLAR (1/6)	1.28	1.27	1.15
SWISS FRANC (1/6)	1.49	1.47	1.39
MEXICAN PESO (1/6)	3.093	3.116	3.077

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (1/6) $/troy oz.	329.600	332.900	−6.7
STEEL SCRAP (1/5) #1 heavy, $/ton	92.50	95.00	−1.6
FOODSTUFFS (1/4) index, 1967=100	198.4	199.5	−1.4
COPPER (1/2) ¢/lb.	106.0	104.5	4.7
ALUMINUM (1/2) ¢/lb	57.1	57.5	10.9
WHEAT (1/2) #2 hard, $/bu.	3.72	3.74	−11.4
COTTON (1/2) strict low middling 1-1/16 in., ¢/lb	52.31	51.54	−2.8

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Ch year
STOCK PRICES (1/1) S&P 500	437.92	439.95	
CORPORATE BOND YIELD, Aaa (1/1)	7.88%	7.93%	
INDUSTRIAL MATERIALS PRICES (1/1)	97.9	97.7	
BUSINESS FAILURES (12/25)	323	384	
REAL ESTATE LOANS (12/23) billions	$400.0	$402.5	
MONEY SUPPLY, M2 (12/21) billions	$3,428.6	$3,432.5r	
INITIAL CLAIMS, UNEMPLOYMENT (12/19) thous	360	360	

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally a data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch year
PURCHASING MANAGERS' INDEX (Dec.) billions	55.9%	55.0%	
CONSTR. SPENDING (Nov.) annual rate, billions	$441.8	$432.8r	
12 LEADING INDICATORS COMPOSITE (Nov.) index	150.3	149.1	
FACTORY INVENTORIES (Nov.) billions	$381.8	$383.7	

Sources: Natl. Assn. of Purc. Mgmt., Census Bureau, Commerce Dept

MONETARY INDICATORS

	Latest week	Week ago	% Ch year
MONEY SUPPLY, M1 (12/21)	$1,019.6	$1,021.5r	
BANKS' BUSINESS LOANS (12/23)	277.2	278.6	
FREE RESERVES (12/23)	1,279	742r	
NONFINANCIAL COMMERCIAL PAPER (12/16)	145.0	152.1r	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed two-week period in millions)

MONEY MARKET RATES

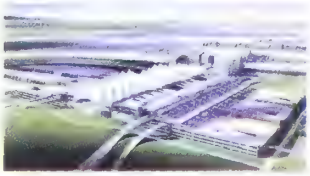
	Latest week	Week ago	
FEDERAL FUNDS (1/5)	3.33%	2.86%	4
PRIME (1/6)	6.00	6.00	6
COMMERCIAL PAPER 3-MONTH (1/5)	3.36	3.51	7
CERTIFICATES OF DEPOSIT 3-MONTH (1/5)	3.26	3.34	4
EURODOLLAR 3-MONTH (1/1)	3.34	3.38	4

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equip
1–Western Wood Products Assn. 2=Southern Forest Products Assn. 3–Free market value NA=Not available r=revised NM=Not meaningful

When your standard of reference is the Rocky Mountains, thinking big is something that comes naturally.

One sterling example of this thinking is the new Denver International Airport. Scheduled for completion 993, it covers more land area than both O'Hare and Dallas/Fort Worth airports combined.



But more significantly, it's the first airport that will allow up to three different ms of aircraft to land at the same time. This, together with the latest navigational aids low visibility lighting will make for an airport that's virtually weatherproof, resulting in fewer delays.

Perhaps it's only fitting that the minds behind this project come from a place where the workforce ranks as of the highest educated in the nation. In fact, the number of college graduates here is 62% above the national average.

And, according to the Federal Reserve, our state economy is one of the most diverse.

In addition, Denver is where cable television was invented. It is still the country's gold-mining capital. l it's the only place in the U.S. where you can link directly by satellite to five continents, using only one satellite "bounce."

All of which make Denver an unusually forward-thinking place to do business. As evidenced by the fact more money is currently being spent to build infrastructure in Denver than in any other city. Or the fact that prime ntown office space goes for a competitively low $13 a square foot. And the median cost of a home is $95,000.

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So, if you find yourself having ideas that seem bigger than the city you're in, we suggest you call Dolores son at the Metro Denver Network, 303-620-8029. We think you'll enjoy the conversation. After all, she is quite stomed to hearing from people like you. **Denver** Take A Closer Look.

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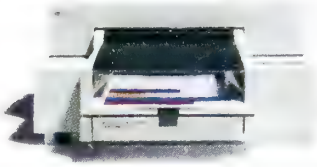

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Readers Report

AN END RUN AROUND POWER RETAILERS

Your article on retail giants ("Clout," Cover Story, Dec. 21) accurately describes the retail scenario and would have been complete if it had focused on solutions to the monopolistic behavior of these companies. As suppliers encounter these growing conglomerates, they should seek out foreign-based vendors for their products. We have found the Japanese are building more and more shopping centers and are looking for suppliers for their new stores. This is an excellent opportunity for American retail suppliers to enter and benefit from the Japanese market. By competing in the Japanese market, suppliers will also create a competitive environment in the U. S. American retail conglomerates will not have the leverage of a monopoly if they must compete with vendors in other countries.

Amy Weiss
Business Development Analyst
International Access Corp.
Washington

THE BIG BANG FROM UNDERGROUND BUCKS

When spending repeatedly exceeds income, one only has to look to unreported income to make up the difference ("Consumers are on a binge now—but watch out for the morning after," Business Outlook, Dec. 28). The underground economy is alive and growing. Its untaxed dollars bring a bigger bang to the binge than my 62¢ dollars.

Fred P. Ritchie
Pinehurst, N. C.

WHO CAPTURED NASHVILLE? CLINTON, NATURALLY

Your story "What's in the moving van from Little Rock" (Top of the News, Nov. 23) states: "Clinton knows most of Nashville went for Bush." Although I assume the reference is to members of the Grand Ole Opry (which may or may not be true), it is misleading. I can assure you and your readers that Clinton received more votes in Nashville-Davidson County, Tenn., [illegible] all 13 other Presidential candidate[illegible] our ballot combined—including [illegible] and Perot. Certified tabulations fro[illegible] Election Commission show that Cl[illegible] got 106,355 votes (52%) compared [illegible] 97,425 votes (48%) for all others. [illegible] that, given this election's peculiariti[illegible] a mandate!

Richard M. Morin, [illegible]
Davidson County Democ[illegible]
Executive Comm[illegible]
Nash[illegible]

HOW PRUDENTIAL AND KRAFT ARE FIGHTING AIDS

I want to clarify some points in [illegible] story "Corporate generosity is gr[illegible] depreciated" (Social Issues, Nov. 2). [illegible] fact is that Prudential funding for [illegible] has not dwindled or disappeared. [illegible] National Community AIDS Partnersh[illegible] pleased to report that Prudential is [illegible] of our current national funding par[illegible] and is historically one of the most g[illegible] ous corporate funders of AIDS-re[illegible] causes in the country.

The second company you cited, [illegible] General Foods, was acquired by [illegible] Morris Cos. This parent company [illegible] increased its funding to the Nat[illegible] Community AIDS Partnership to [illegible] the strategic redirection of the [illegible] Foundation discussed in your articl[illegible]

Peter R. S[illegible]
Senior Development O[illegible]
National Community AIDS Partne[illegible]
Washin[illegible]

'THE REAL TEREX AND FRUEHAUF STORY'?

Contrary to your story "The pile [illegible] questions about Fruehauf" (Fin[illegible] Dec. 14), Fruehauf has had an exc[illegible] relationship with its lenders and [illegible] made substantial loan repayments. [illegible] ing reduced its debt by more than [illegible] million since its acquisition. It has [illegible] substantial principal reductions ahe[illegible] schedule and has met all the oblig[illegible] for payment of principal and inter[illegible] was required to make under its [illegible] agreements. Fruehauf will contin[illegible] make its payments on time or early[illegible] article, however, implies that Fru[illegible]

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has had problems in connection with its bank loan agreement, and this negative implication is untrue.

The story states that "Fruehauf took $10 million in excess money from its pension fund and fed it into the company's income stream as operating profit." No excess money was taken from the pension fund, however. A noncash accounting accrual for a potential future liability of the fund was reversed because the liability would never occur. This is very different from taking money from a pension fund. Moreover, the article describes the events relating to the dismissal of Deloitte & Touche. It states our denial of any dispute with Deloitte & Touche over accounting practices, but it fails to state that Deloitte & Touche's letter to the SEC concurred with our statement that no dispute over accounting practices existed.

The article states that investors in Fruehauf have suffered. It is true that the company's share price is currently below the initial offering price of $11. However, Fruehauf has suffered as a result of the recession and an earlier BUSINESS WEEK article about its parent company, Terex Corp. ("The accounting questions at Terex," Finance, Oct. 12). Disclosures of losses at Fruehauf have been made throughout 1991 and 1992, and any investor who was unhappy with his investment in Fruehauf, up until recently, could have sold its shares and taken a profit. In fact, following the timely disclosure of losses and loan-covenant violations in March, 1992, Fruehauf's shares reached a high of 17¾.

Since 1983, Terex has acquired a number of troubled businesses. These companies (including Fruehauf) all continue to operate, although the outlook for their survival prior to their acquisition was, in nearly every instance, bleak. Jobs have been saved and companies kept alive. Although, as manufacturers of capital equipment in cyclical industries, Terex and Fruehauf have suffered through this recession, the companies continue to meet their debt obligations and will prosper again in the near term. Terex has grown from an extremely modest beginning into two New York Stock Exchange companies whose aggregate sales in 1993 should total about $1.4 billion. We think that this is the real Terex and Fruehauf story.

Marvin B. Rosenberg
General Counsel
Terex Corp.
Westport, Conn.

Editor's note: We stand by our story, but we should have noted that Fruehauf's accrual for pension funds was a noncash item.

CORRECTIONS & CLARIFICATIONS

A table that accompanied the article "Suddenly, health-care players are ready to talk" (Top of the News, Dec. 28) incorrectly described the American Hospital Assn. It represents both not-for-profit and for-profit hospitals.

DURACELL: WHERE ITS VOLTAGE IS

In "Duracell looks abroad for more juice" (The Corporation, Dec. 21), you say Duracell has little room for growth in the U.S. But we say it has ample room to grow, both within and outside the U.S., and from new battery products. We view growth outside the U.S. as incremental. Your view is more dramatic but less factual.

You say Kohlberg Kravis & Roberts "took charge" of Duracell after the leveraged buyout. We say instead that KKR provided and provides outstanding financial support while allowing Duracell to run the battery business.

You say Duracell's growth outside the U.S. has been "lackluster." We say Duracell's three-year unit growth in Europe between 1989 and 1992 was 7%. In other international markets, it was 21%. If that is "lackluster," it's time to order a new dictionary.

C. Robert Kidder
Chairman and CEO
Duracell International Inc.
Bethel, Conn.

BOXING DOESN'T NEED THE FEDS IN ITS CORNER

Your commentary on boxing, "It's time for the Feds to step into the ring" (Sports Business, Dec. 14), is utterly absurd. When we are trying to cut federal spending, I can't think of a less meritorious use of taxpayers' money than setting up a bureaucracy to regulate that most useless of sports, boxing. Institutionalizing a brutal, life-threatening activity that is its own worst enemy and doesn't add any value to the culture is ridiculous. What next—a federal program to teach us to smoke effectively?

Paul A. Saxton
Terre Haute, Ind.

A THUMBS-UP FOR NUCLEAR POWER

As the person responsible for the nuclear industry's opinion research, I can't accept the claim in "Westinghouse: More pain ahead" (Top of the News, Dec. 7). The article states that u support in the U.S. for nuclear p has been slipping steadily for 20 e when just the opposite is true.

Today, a growing majority of A cans—73%—think that nuclear e should play an important role in m future electricity needs.

And in a poll taken this year, 66 the country's 110 nuclear power p had served the U.S. well.

Most Americans do not think w more nuclear power plants right but they're just as convinced th don't need any new electric-power of any kind. And three-fourths of A cans say they want to preserve t tion to build more nuclear power p

Ann B
Vice-Pre
Research & Program Eval
U.S. Council for Energy Awa
Wash

MAKING MICROSOFT THE SCAPEGOAT

Regarding "The FTC vs. Micro (Top of the News, Dec. 28), Development Corp. is deluding its thinks its spread-sheet product is market share primarily because o petition from Microsoft Corp.

Lotus is deservedly losing sha cause it has done a miserable enhancing Lotus 1-2-3. Lotus' fail keep its core product up to date from management arrogance, the arrogance that tripped up Gener tors, IBM, and other onetime leaders that never learned that a ny can never rest on its laurels.

I urge the FTC to ignore any w Lotus does about Microsoft.

Be
Alexandri

DON'T TREAD ON THIS AMERICAN BEAUTY

In regard to "The Rose Bowl ma to punt to the private sector" (the News, Dec. 28), not all topics BUSINESS WEEK agenda. There hav and still are human endeavors, s them quite spectacular, that are u ed to the "bottom line." The Rose extravaganza is one of those end

Please, in the name of tradition us a few sacred cows.

George S. F
Oshkosh

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VHY LOBBYISTS NEVER FAIL —TO LINE UP MORE WORK

Washington is a city of persistent myths. One of the most popular is the legend of the powerful lobbyist. Armed with rm, connections, and pots full of cam-gn contributions, he or she always vers what the client wants, public be ned.

effrey H. Birnbaum effectively punc-es this fantasy in *The Lobbyists: How luence Peddlers Get Their Way in shington.* Unfortunately, as the sub-e makes clear, that's not what he set to do. The result is a useful book d with the fine anecdotes and details has come to expect from the author, eteran *Wall Street Journal* reporter, a work at war with its own thesis.

he setting for *The Lobbyists* is the and-spending debate of 1990, a tu-tuous year on Capitol Hill that ended the catastrophic agreement—for rge Bush, at least—to raise taxes. nbaum tracks the efforts of four iness lobbyist groups: the Capital ns Coalition, dedicated to cutting tax es on profits from the sale of assets; etech, a consortium backing incen-es for research and development nding; the warring camps of mutual stock life insurers; and the disingen-sly named Coalition Against Regres-e Taxation, an assortment of alcohol, acco, and transportation interests op-ed to higher excise taxes.

he problem with focusing on these ups is clear to anyone who followed '90 debate and subsequent events: e capital-gains cut died in partisan ac-ony. Excise taxes soared. Both ves of the life-insurance industry got uge tax increase. And R&D incentives, er a string of temporary reprieves, ired and await resurrection in the nton Administration.

he damage actually done by corpo-e lobbying of Congress is the opposite what this book's title suggests. The ure of democratic politics makes it easier to prevent action than to make nething happen. Worse, Hill budget es designed to check the deficit re-re that any benefit won by one inter-be offset directly by someone else's s. So business interests end up devot-much of their time to blocking one another's efforts. Corporate lobbyists thus have become major contributors to the much-decried Washington gridlock.

Consider the struggles over capital-gains tax cuts and R&D tax credits. The forces that support these two notions would appear to be natural buddies. After all, the ostensible purpose of both tax breaks is to spur investment.

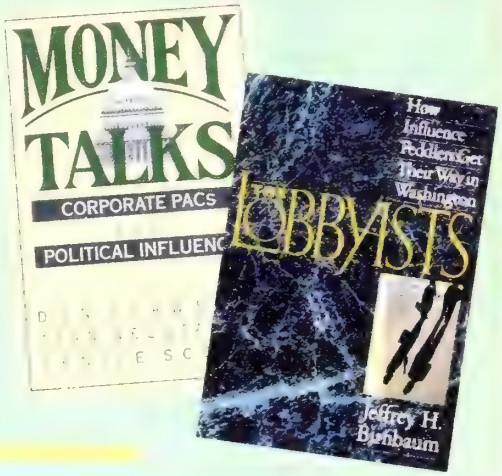
But appearances are deceiving. The R&D credit is the darling of major corporations and of universities, which benefit indirectly through tax-subsidized corporate research grants. High-tech startups, though intensely focused on research, have little interest in the credit because they have no taxable profits. Such startups want their tax goodies in the form of a capital-gains break to lessen the bite on their entrepreneurial owners when they go public or sell out. Other major supporters of capital gains include real estate, art, and timber interests, who don't care about research.

The shortage of money available for tax breaks made potential allies into mortal enemies. Coretech and the Capital Gains Coalition ended up frustrating each other.

Not that failure is necessarily a problem for lobbyists, especially the freelancers on whom this book concentrates. An outright win leaves a hired advocate exposed to the March of Dimes syndrome: What do you do after your disease is cured? Partial victory—or a narrow escape from defeat—allows a lobbyist both to tell the client how much worse it might have been and to line up work for the next round. Birnbaum accurately describes this phenomenon, and along the way provides detailed looks at such leading lobbyists as Mark Bloomfield, Wayne Thevenot, and Stuart Eizenstat, and examines their techniques. But Birnbaum never quite points out the dark Washington secret: Lobbyists often win by losing.

Money Talks, a related volume by three academic sociologists, is flawed by a willingness to sacrifice reality to theory. The authors, Don Clawson, Alan Neustadtl, and Denise Scott, had the commendable notion of spending many hours talking to the managers of corporate political action committees to find out just what they think they are accomplishing. And the extensive quotations, most of them anonymous, make up by far the most valuable part of this book.

Behind-the-scenes tales, one too tied to theory and the other graced with revealing anecdotes



A tip-off to its problems is found in glowing jacket blurbs from Jesse Jackson and Senator Paul D. Wellstone (D-Minn.). The authors are in thrall to the leftist antibusiness cant so popular on campuses. The silliness of their position peaks with the argument that the "hegemonic" power exercised by corporations over the political process "is similar to white treatment of blacks [in the South] in 1959." The amount of money thrown around by corporations and interest groups is indeed a major corrupting force in politics. But the analysis in *Money Talks*, rooted as it is in the premise that ownership of capital is the root of all political evil, is not about to help solve the problem.

BY STEPHEN H. WILDSTROM

Washington-based Senior News Editor Wildstrom has been reporting on the activities of lobbyists since 1974.

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DAMN THE DEFICIT, GO FOR GROWTH

BY ROBERT KUTTNER

Bill Clinton shouldn't be mulling what programs to cut but how best to get higher growth with health reform and infrastructure investment. By 1995, the deficit would be in true retreat

As deliberations about Bill Clinton's economic program proceed, gloomy new budget projections by the Congressional Budget Office (CBO) and the Office of Management & Budget (OMB) lend credence to Clinton's deficit hawks, who want steeper spending cuts, tax increases, and deferral of plans for public investment. But those projections are misleading and could pull Clinton into a politically disastrous, economically perverse austerity program. Several key Democratic senators up for reelection in 1994 will be in deep trouble if the economy remains slack.

The CBO and OMB both assume that present trends of slow growth and rising health costs will continue throughout the decade. That will lead to sluggish revenues and growing government costs—hence the widening projected deficit. But rather than aiming for more heroic deficit reduction, which would only lead to even slower growth, the new President needs to change those trends. Specifically, he needs to pursue a growth program and plug the drain of health outlays.

The preferred macroeconomic policy is stimulus now, best led by public investment, followed by gradual deficit reduction after growth is back on track. The preferred health policy is universal health coverage, combined with cost containment. The new budget estimates only make that logic more imperative.

QUICK FIX. The Economic Policy Institute, on whose board I serve, has constructed three scenarios for the 1990s. The first, dubbed *Austerity*, projects gross domestic product and unemployment given dramatic deficit reduction without increased public investment or health-care reform. Unemployment would remain above 6% throughout the decade, real GDP growth would be around 2% per year, and despite slightly lower real interest rates, private investment would remain slack—i.e., why bother? The deficit would shrink to about $150 billion by 1998, thanks to draconian budget cuts or tax increases, but would then rise again because of chronic slow growth. A second scenario, dubbed *Muddle-through*, continues the present trend. This yields slightly higher growth, but an even worse deficit, with escalating federal interest costs.

The better course is to use a jolt of public investment—at least $60 billion a year for the next 18 months, followed by $40 billion a year after 1994, to stimulate and rebuild the economy. Real deficit reduction relative to GDP would kick in after 1995, thanks to the higher real growth rate and health-care reform. By decade's end, the economy would enjoy higher real output and a steadily diminishing deficit.

The new Administration should be debating not which programs to slash but how bes get higher growth. Tax incentives were t and found wanting during the 1980s. The ter approach is to use public infrastruct to bridge over the failure of private indus to invest in a deflated economy. When gro is restored, private investment will come because investors will see customers. T strategy also requires a low-inflation, l interest-rate compact with the Federal serve. Such a compact is attainable if the sees a convincing long-term plan for ste growth and gradual deficit reduction.

HEALTH-CARE DIVIDEND. The other essentia gredient to budget discipline is health-care form. The Clinton transition team is curre debating the details of an imaginative strat that blends universal coverage, cost cont ment, and managed competition. The b idea is to require all employers to contrib to a health-care system that would use gional Health Insurance Purchasing Co-op tives (HIPCs) as single payers. The HIPCs w not reimburse, procedure by procedure, would pay a flat annual fee to local he plans based on their enrollment. Consum would have a free choice of health plans would not have to change plans when t changed jobs. Costs would be shared am businesses and employees, with the gove ment paying on behalf of the unemploy Nearly everyone, however, would be in same basic system. Large companies w probably retain the right to operate separ health plans, but most would soon find it n cost-effective to pay into the common fun behalf of their employees.

If this plan is enacted in 1993, it could duce net budget savings as early as 1995. government would need to contribute an a tional $50 billion to $100 billion yearly, that could be offset by limiting the empl tax-deductibility of health contributions, w currently costs the Treasury some $72 billi year. Federal outlays for medicaid, the n rapidly rising share of the budget, woul added to the pot. By 1995, the system w begin reaping real budget savings from cost discipline and greater administrative ciency of the new system. None of this po tial for deficit reduction via health refor reflected in the CBO and OMB estimates.

The choice is Clinton's. He can act to ti en everyone's belt. Or he can aim for a h growth economy and reform the health tem, which together would yield a far n attractive path to budget discipline. The election was about economic stupidity. If economy is still in a stupor in 1994 and 199 will be hard to blame on others.

ROBERT KUTTNER IS CO-EDITOR OF *THE AMERICAN PROSPECT* AND AUTHOR OF *THE END OF LAISSEZ-FAIRE*

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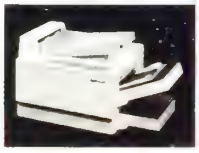

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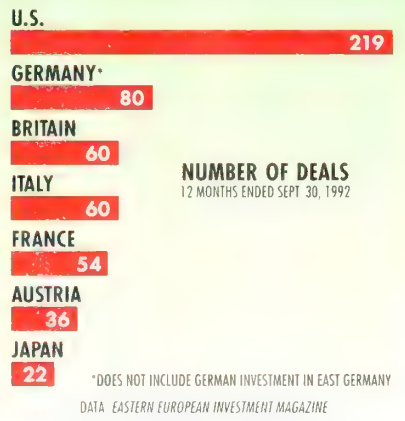
BY GENE KORETZ

YANKEES GO EAST —ON A SCALE THAT'S 'STARTLING'

Despite continuing economic turmoil in the former Soviet bloc, U. S. companies are apparently taking the long view and plunging ahead with direct investment there. According to Mark Dixon, editor of New York-based *East European Investment Magazine*, which keeps tabs on investment in 28 countries, the number of U. S. deals concluded in the year ended in September jumped more than 100%, and their value soared sixfold.

As a result, the U. S. pushed Germany aside as the largest investor in the region, racking up 219 acquisitions, joint ventures, and startups valued at nearly $8 billion. That represents 30% of all foreign-investment deals monitored and 29% of the $27.9 billion value of such transactions. "The scale of U. S. involvement is startling," says Dixon, "in light of Eastern Europe's greater proximity to Western European countries and the economic and political ties it is forming with the European Community."



Indeed, aside from Italy, which invested $7.6 billion, the value of U. S. direct investment was more than double that of any other country. And the number of U. S. transactions was greater than those of Britain, Germany, and Italy combined—not to mention Japan, which posted only 22 deals in the region, worth a minuscule $8 million.

Although larger companies accounted for the lion's share of U. S. investment, the biggest difference between U. S. investors and their Western European rivals is that 70% of the U. S. deals were concluded by small and midsize companies. "Smaller American companies obviously feel that the huge potential rewards justify the risks," says Dixon. "Eastern Europe may be one of the few places in the world where a company investing only a few million dollars today could become a market leader in 10 years' time."

Even more than capital, he says, east European countries desperately need energy, managerial skills, and entrepreneurial zeal—qualities that "small American companies are eager to supply."

DETROIT IS STARTING THE NEW YEAR WITH A VROOM

Economic Cassandras projecting a fairly weak first quarter—as consumers retrench after their Christmas splurge—may be in for a surprise, says economist Joseph Carson of Dean Witter Reynolds Inc. He notes that at least one economic omen—schedules for auto production—points to continued strength.

According to industry reports, rising motor vehicle sales in December have encouraged Detroit to maintain the strong output plans it unveiled in late November. These call for a 13% increase in car production and an 11% rise in truck output from their fourth-quarter levels—enough, says Carson, to add a full percentage point to the economy's first-quarter growth rate.

WHEN GETTING RID OF HEALTH COVERAGE MAKES ECONOMIC SENSE

At first glance, the development looks ominous: In 1989, when the Bureau of Labor Statistics surveyed large and midsize companies employing 31 million full-time workers, it found that 10% of employees were not covered by employer-provided health insurance. Now, the BLS reports that a similar survey in 1991 showed that 20% were not participating in such plans.

BLS officials note that while there was no change in the overall availability of health insurance between 1989 and 1991, more workers than in the past were required to pay part of the cost for their insurance plans. And average employee premiums for family coverage rose sharply, by 35%. Thus, higher premiums apparently induced many workers to opt out of their health plans.

That doesn't mean that they lack coverage entirely, however. According to benefits consultants, many large employers have been seeking to elimina "redundant" coverage, where worke are covered both by their own plan a that of their spouse. Because plans diff in details, dual coverage lets many wor ers minimize out-of-pocket medical e penses. This is expensive for employe and reduces the cost sensitivity that e perts claim could moderate soari health-care spending.

The upshot is that many employe have boosted employee premiums f family coverage, both as a cost-shari measure and to spur employees to dr redundant insurance. Indeed, consultan Towers Perrin note that some comp nies have actually begun to pay emplo ees to drop out of their plans if th also have coverage elsewhere. O major corporation, which offered e ployees cash incentives of up to $1,5 each for such action, says it sav $500,000 a year.

A CREDIT CRUNCH? FOR SMALL BUSINESSES, IT'S YET TO COME

Rumors of a small-business cred crunch have been vastly exaggera ed, reports the National Federation Independent Business. A new NFIB stu concludes that the credit problems fac by small businesses have been mostly normal cyclical phenomenon associat with business downturns. Credit avai ability usually declines during econom weakness, it notes, because investme opportunities shrink. But in recent year availability for small business has actua ly been less tight overall (except for few regions, such as New England) tha it was in past recessions.

In reality, says the NFIB, "a decli in the demand for credit by small bus ness has been misinterpreted as a r striction of supply." Because of low infl tion, high profits in the mid-1980s, an the recent slowdown, many owners hav felt little need or desire to borrow hea ily. In fact, NFIB surveys in recent yea indicate that financing woes loom rel tively small in small businesses' asses ments of their problems.

"The real risk of a credit crunch says NFIB economist William Dunke berg, "lies in the soon-to-emerge privat demand for loans." Once the expansio accelerates, there will be a surge bankable deals, which will strain the f nancial system. The combination heavier regulation, nervous bankers, an rising private-sector credit demand, h warns, could then produce a "truly ser ous credit crunch for small business."

NUARY 18, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

THIS TIME, THE RECOVERY COULD ACTUALLY CLEAR THE RUNWAY

For the third time in the 22 months of this on-again, off-again expansion, traditional business-cycle forces are giving the economy a lift the way they typically o in a recovery. The question on everyone's mind: Will ne dynamics break down again as they did twice be-ore? The best answer right now: probably not.

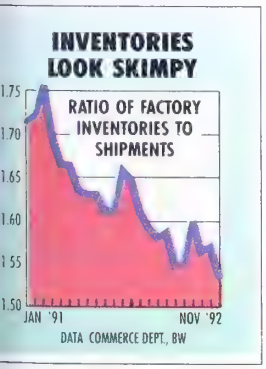
The latest data paint the classic picture. Consumers, ired of the spartan life, are spending again. Inventories ave become extremely thin. Orders are picking up, as is actory output. All this usually leads to more hiring, vhich keeps the cycle churning. But for two times now, he failure of jobs to grow has short-circuited the process y forcing consumers to retrench.

To be sure, consumers simply do not have the financial esources to continue spending at the more than 4% rate f increase they kept up during the second half of 1992. So slowdown in consumer buying early in the new year seems likely. That means economic growth stands a good hance of cooling off as well from what appears to be a second-half pace of 3% or better.

However, the good news is that the foundations for stronger production, especially in manufacturing, and gen-erally better job growth are falling into place. And that will keep any slowdown from looking like a stall.

STOCKPILES SEEM TOO LEAN FOR COMFORT

Although consumers raced ahead of their finances in the second half of last year, their spending laid the groundwork for stronger industrial activity in early 1993. The strongest two-quarter pace of consumer buying in 4½ years took businesses by surprise. At yearend, they apparently got caught with their inventories down.



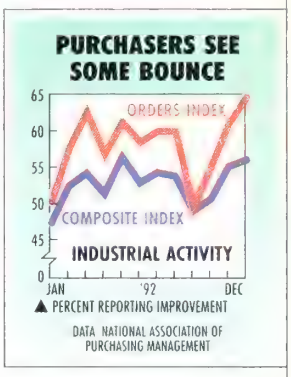
By November, manufacturers were already feeling the impact. Factory inventories fell 0.5% in the month. That was the largest decline in nearly a year, and it occurred in a month in which factory output rose 0.5%. Despite output gains in both October and November, factory inventories have declined for three consecutive months.

Factories are likely to lift production if only for fear of losing sales because of low stock levels. Indeed, the ratio of inventories to shipments in November fell to the lowest level in 13 years (chart). Clearly, factories are on a long-term mission to cut inventories, but November stockpiles look undesirably low.

But while low inventories will undoubtedly spur output in coming months, production gains still face some constraints. One problem is that factory orders are still not growing fast enough to keep up with shipments. So the backlog of unfilled orders continues to shrink.

The factory backlog fell by 0.9% in November, and it shows no sign of turning around. Aircraft accounts for 45% of November's $471.8 billion in unfilled orders, but even excluding planes, the backlog is falling.

Unfilled orders must start to rise before manufacturers can become confident that the pickup in demand is not just fleeting. And that is a prerequisite to new factory hiring. However, the full impact of the strongest holiday buying in four years has not yet shown up in the data.



The first reading on industrial activity in December looks encouraging. The National Association of Purchasing Management's composite index of orders, output, jobs, inventories, and delivery times rose to 55.9%, from 55% in November. A number greater than 50% means that manufacturing is expanding.

An even more upbeat sign for future growth: The NAPM's monthly index of new orders scored its third consecutive sharp rise in December. The reading was the highest in more than five years, and it was one of the three highest in the past nine years (chart).

A key area of industrial strength in coming months could be autos. Sales of U. S.-made cars jumped to an annual rate of 7.1 million in late December, lifting sales for the entire month to a 6.6 million pace. That's up from 6.2 million in November. Sales of light trucks last month were also strong.

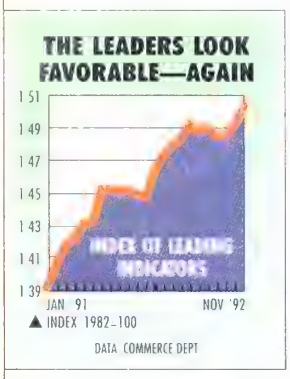
As a result, Detroit has put forth a robust production schedule for the first quarter, says *Ward's Automotive Reports*. After seasonal adjustment, the plans imply a substantial boost to January industrial production.

GOODS PRODUCERS SHAPE THE EXPANSION

A healthy prognosis for manufacturing is important to the outlook, because the course of the goods-producing sector has always defined the broad contours of any expansion. Generally speaking, as manufacturing and construction go, so goes the economy.

The zigzag path of manufacturing since the recovery began also has had a lot to do with the ups and downs of

the Commerce Dept.'s composite index of leading indicators. That was particularly true in November: The leading index jumped 0.8% in the month, the biggest gain since January (chart). Eight of the 11 indicators read positive in November, and of those eight, four were directly related to the recent strength in manufacturing.



In the past, the leading index has depended heavily on factory indicators to point the economy's way. But in this latest business cycle, the index appears to have lost some of its forecasting ability. It gave no warning of the recession that began in July, 1990. It gave one month's notice on the recovery that began in March, 1991. And twice during the expansion, it started falling—incorrectly forecasting a new recession.

However, the leading index has provided a good tracking of the economy's current path. So in that regard, the November advance, following a 0.5% increase in October, at least suggests a healthier economy at yearend.

HOMES POWER THE UPTURN IN BUILDING

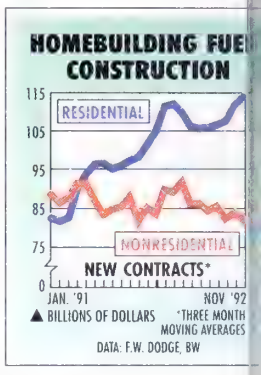
Construction is also playing a defining role in this expansion. The rebound in building has been an important contributor to overall growth, but it has been decidedly puny compared with past construction upturns. It will stay that way in 1993.

Homebuilding has been the only source of strength. Since the first quarter of 1991, residential outlays have accounted directly for 20% of the growth in real GDP, although they make up a mere 4% of the total. At the same time, business construction has declined steadily. In fact, while residential investment is up by $27 billion, nonresidential outlays are down by $22 billion.

Construction spending rose strongly in November. Outlays for residential, nonresidential, and government construction jumped 2.1%. Private-sector outlays increased by 1.7%, the third consecutive strong gain. Spending on single-family homes rose a hefty 3.1%.

That's because demand for new one-family homes remains strong. Sales plunged 8.3% in November to an annual rate of 565,000, but the monthly data tend to be erratic, because of weather and seasonal-adjustment problems. The three-month average of new-home sales remains well above the 600,000 mark, a solid showing.

But despite the ongoing strength in single-family building, the big drags continue to be apartments, office buildings, and other commercial construction. That's not likely to change in 1993. Overbuilding in the 1980s and already high vacancy rates will see to that. The split between residential and nonresidential building shows up in the data on new-construction contracts from the F.W. Dodge Group, a division of McGraw-Hill Inc. (chart).



Contracting fell 10% in November, reversing October's 9% surge. However, contracting for 1992 is up 7% from 1991. Also, building activity in 1993 could get a lift from the Clinton Administration's plans to enhance the nation's infrastructure.

The real question, though, is: When will the gains in manufacturing, construction, and elsewhere translate into more jobs? The answer might be: soon. Weekly jobless claims have fallen to levels that suggest a pickup in hiring.

In fact, the four-week average of claims, including filings under the emergency benefits program, fell in mid-December to the lowest level in 2½ years—before the recession began. That's the best sign yet that this expansion now has a good chance to build on itself and avoid another breakdown.

THE WEEK AHEAD

PRODUCER PRICE INDEX

Thursday, Jan. 14, 8:30 a.m.

The December producer price index for finished goods is expected to post a slim 0.1% increase, according to the median projection of economists surveyed by MMS International, a division of McGraw-Hill Inc. That would follow a 0.2% decline in November. Excluding food and energy, the economists look for an equally tame 0.2% rise.

RETAIL SALES

Thursday, Jan. 14, 8:30 a.m.

Retail sales for December probably rose by 0.6%, says the MMS survey, following November's 0.4% gain. The December gain would close out an exceptionally strong quarter for retail buying and imply that consumer spending will provide a sizable lift to fourth-quarter real gross domestic product.

CONSUMER PRICE INDEX

Friday, Jan. 15, 8:30 a.m.

The MMS economists expect that consumer prices rose by a well-behaved 0.2% in December, the same for prices excluding food and energy. That would end 1992 with a 3% yearly inflation rate.

MERCHANDISE TRADE DEFICIT

Friday, Jan. 15, 8:30 a.m.

The November trade gap probably held close to October's reading of $7 billion, as exports and imports both posted small increases.

INDUSTRIAL PRODUCTION

Friday, Jan. 15, 9:15 a.m.

The MMS economists expect December industrial production to climb 0.4%, a shade below the gains racked up in October and November. Autos, consumer goods, and business equipment should contribute to the advance. Also, capacity utilization is likely to rise to 79.1%.

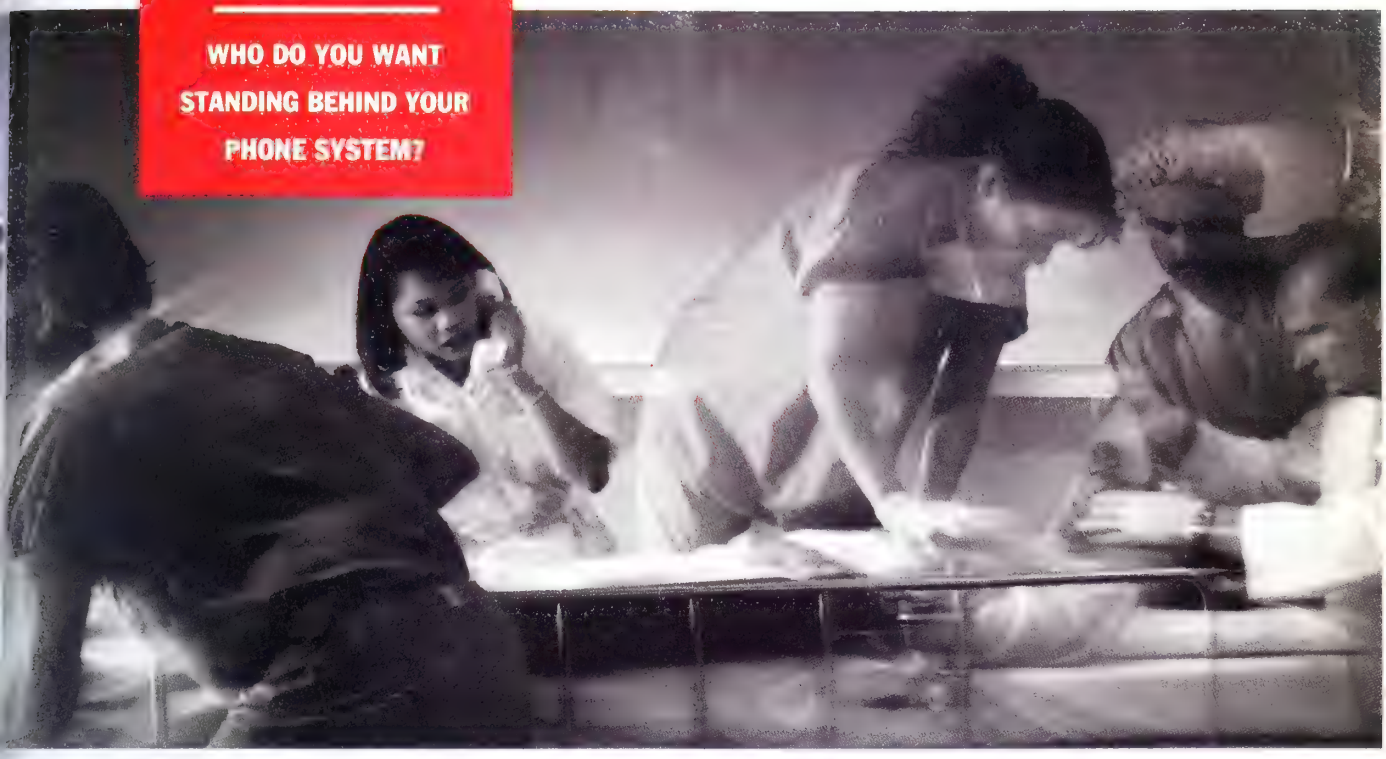
BUSINESS INVENTORIES

Friday, Jan. 15, 10 a.m.

November inventories at manufacturers, wholesalers, and retailers probably dipped 0.1%, says the MMS survey, led by an already reported 0.5% drop in factory stocks. Inventories are shaping up to be a drain on fourth-quarter real GDP.

WHEN OVER 75,000 LIVES ARE ON THE LINE

WHO DO YOU WANT STANDING BEHIND YOUR PHONE SYSTEM?



When life or death is just a breath – or a phone call – away, you don't pick an ordinary phone system. You pick one that's based on the simple design premise that *all calls can get through!*

But Fujitsu's non-blocking architecture wasn't the only reason that New England's newest medical center – the $218-million Dartmouth Hitchcock Medical Center (DHMC) – selected their F9600 digital PBX to take it into the 21st century. DHMC also wanted a system that was compatible with their existing phones. A system that transmitted voice, data, fax and video images to 4,700 terminals over a seven-mile network of fiber optic cable. And a support team committed to Integrated Services Digital Network (ISDN) applications.

The answer was Fujitsu, a $25-billion global telecommunications and computer leader serving over 100 countries.

To see what answers the F9600 has for you, call 1-800-553-3263.

The F9600 Digital Telephone from Fujitsu, a $25-billion global telecommunications leader serving over 100 countries

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

JANUARY 18, 1993

A QUESTION OF VALUE

OUR ANALYSIS FINDS BIG BLUE MAY BE CHEAP

You know who you are. Yes, you—the three-quarters of a million miserable IBM shareholders who watched last year as stock in the world's biggest computer maker plunged, like Lucifer, into some crude netherworld. Since summer, the shares have fallen by more than half, the market casting away $30 billion in value.

If you said to hell with it and dumped your stake to grab a tax loss, that's easy to understand. Russell E. Jacobson, a 33-year IBMer of Sacramento, Calif., has seen his shares shrink in value by two-thirds since he retired in 1987. He nearly sold before yearend—and then hung on. "I just hate to confirm the fact that I've lost my retirement," he says.

GRIST MILL. A triumph of naive hope over brutal reality? Perhaps, but investment pros have nothing on Jacobson: Conviction on Wall Street about IBM is as hard to find these days as profits in Armonk. Most investors are focusing on two short-run events, a Jan. 19 report on fourth-quarter results and the IBM board's Jan. 26 meeting. Then, IBM's $1.21 quarterly dividend is widely expected to be cut by half or more.

Grist for traders, these events may move the stock sharply up or down. Yet they won't do much to clarify the most pressing questions: Has the market beaten Big Blue so low that the stock is selling way beneath the value of the company's operations? Or does some fresh hell await IBM investors?

In plain truth, there's no simple or sure answer. Reckoning the underlying value of any enterprise can be tricky; estimating the worth of IBM's vast and varied businesses is full of uncertainty. But not impossible: A BUSINESS WEEK analysis of IBM's finances and operations suggests the shares, now trading below $50, may be worth $67 or more (table).

Into that conclusion went many assumptions, including a most uncertain one: In the not-too-distant future, each operation would not have to shoulder more overhead—corporate staff, marketers, researchers—than is typical among its rivals. Grant that and accept, as many smart investors do, that underlying values eventually will out, and IBM begins to look undervalued.

Consider General Dynamics Corp. As recently as October, 1990, less than a year after the Berlin Wall fell, shares in the arms maker could be had for 19. Today, as GD auctions off divisions, its inherent value is being realized in the prices the units are fetching. Investors are cleaning up: GD shares recently hit 106.

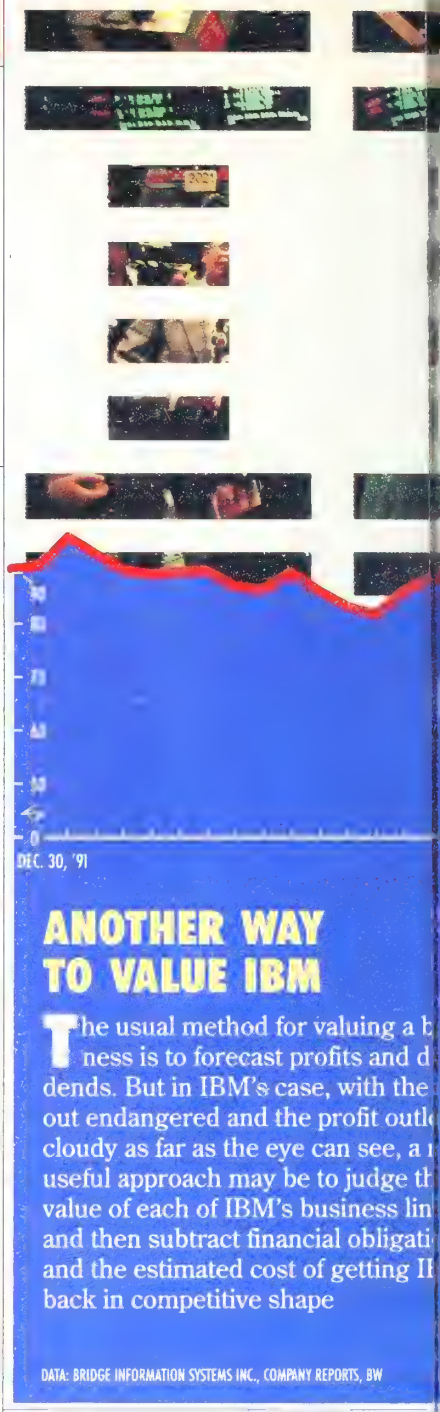
> Buy, sell, or hold? Reckoning how much IBM's major lines of business are worth is fraught with uncertainty, but it isn't impossible

Since few really expect IBM to dump itself into the remainders bin, a better example may be IBM rival Digital Equipment Corp. The No. 2 computer maker suffers many of IBM's ills (page 75). Yet Martin J. Whitman, who has made a career in securities of "fallen angels," is building a stake in DEC. He would be buying IBM, he says, except "DEC cratered first." He adds: "IBM has an excellent financial position."

How do shrewd investors reach such conclusions? Simply put, they often add the value of a company's many assets and then subtract such obligations as debt and lease payments. They also try to figure financial charges needed to account for plant closures, layoffs, or write-offs of dubious assets. The result: a measure of the business' basic value.

Similarly, to evaluate IBM, BUSINESS WEEK first roughly divided its $65 billion in estimated 1992 revenues into eight major lines—from mainframe processors to services. Next, we sought to place a value on sales of those operations by noting what multiple of sales the stock market today is paying for shares in IBM rivals. After adding up these estimated "values," plus some miscellany, we subtracted debt and our guesstimate of future write-offs. The remainder: BUSINESS WEEK's estimate of IBM's inherent value.

LOWBALL. To understand how we reckoned these estimates, let's compare IBM with key rivals in mainframe hardware: Amdahl Corp. and Unisys Corp. Amdahl competes more directly with IBM, so we gave Amdahl's sales multiple of around 0.33 more weight than Unisys' 0.20. IBM



M'S LONG SLIDE

STOCK PRICE

JAN. 5, '93

SS LINE	ESTIMATED VALUE BILLIONS
NFRAMES	$2.9
COMPUTERS	1.3
RKSTATIONS	3.3
ONAL COMPUTERS	6.8
RAGE PRODUCTS	3.3
TERS	0.5
TWARE	13.8
ICES	27.0
ER BUSINESSES*	2.3
OSS VALUE	$61.2

TOTAL IBM	BILLIONS
GROSS VALUE	$61.2
ESTIMATED FUTURE CHARGES (AFTER TAXES)	−9.8
LONG-TERM DEBT AND OTHER LIABILITIES (NET OF WORKING CAPITAL)	−12.8
ESTIMATED NET VALUE	$38.6

ESTIMATED NET VALUE PER SHARE	RECENT STOCK PRICE	BOOK VALUE PER SHARE
$67	48⅞	$54**

*AS OF SEPT. 30, NET OF $7 BILLION IN ANNOUNCED FOURTH-QUARTER CHARGES

st year nailed down an estimated $9.5 llion in mainframe sales. Multiply that y, say, 0.3, and IBM's mainframe operaon might fetch about $2.9 billion.

Sound low? Given IBM's huge market hare and wide base of installed computrs, it did to us, too. But it's safer to err onservatively. Moreover, bargain-baseent values for IBM's declining hardare businesses may be offset by the ock market's generosity toward such ast growers as IBM's services lines.

IBM's estimated 1992 services revenues ome to $18 billion. A big rival, Electron- Data Systems Corp., commands a ales multiple of 1.9, implying a value of $34.2 billion for IBM's services outfits. But wait: Some IBM services revenue is from maintenance and leasing. In leasing, Big Blue competes with Comdisco Inc., whose sales draw a sharply lower multiple of 0.26. Given all this—and appreciating the line's rapid growth—we granted IBM's services sales a multiple of 1.5, or a value of $27 billion.

Going through this exercise for all of IBM yields an estimated gross value of $61.2 billion. Now, let's assume, as many in the industry do, that to get competitive IBM must cut 75,000 more employees. Last year, IBM's work-force reductions cost $105,000 a head worldwide. But because a bigger slice of future job cuts may come overseas, where they tend to cost more, some analysts suspect that the figure may hit $120,000.

So, once more being conservative, let's use the higher figure: That means $9 billion more in charges, which after taxes comes to $5.9 billion. Subtract it from our $61.2 billion estimate of gross value. Next, it also seems safe to expect more charges for assets such as surplus plant, equipment, and computers that IBM leases to clients. IBM says it has shut 40% of its manufacturing space since 1985, while trimming the payroll just 25%. That suggests IBM may have a head start in writing off such assets, so let's guesstimate $6 billion more in charges, or $3.9 billion after taxes.

Finally, let's pay off IBM's creditors and lessors: After using its $8.9 billion in working capital, IBM still would have $12.8 billion in long-term obligations. Subtract that, and IBM is left with $38.6 billion in estimated net value, or more than $67 a share—well over its $54-a-share book value and the $50 or less IBM gets on the New York Stock Exchange.

BULLISH. Skeptical? So were we, so we cross-checked our work. What sort of price, we asked, have IBM businesses fetched on the private market? Unlike General Dynamics, IBM has put few units on the auction block. But there is one recent case, and it's bullish.

In April, 1991, Clayton, Dubilier & Rice Inc., a New York investment firm, bought the IBM arm that made low-end computer printers, typewriters, and other office supplies. Rechristened Lexmark International Inc., the operation then had about $1.8 billion in sales, for which Clayton, Dubilier paid $1.58 billion, or a multiple of 0.88. That's twice the multiple investors grant all of IBM, and Clayton, Dubilier paid it for a relatively slow-growing unit. It's too early to see if the deal will pay off, says the firm's president, Joseph Rice, but so far, sales are up about 12% since the buyout, and profits have outrun forecasts.

IBM's reaction to all this? "We just don't comment on the stock," a spokesman says. Nonetheless, he allows that IBM felt the need to launch an ad campaign on Jan. 4 to "remind people that we have a number of strengths."

On that, retiree Russell Jacobson concurs. Yet he isn't banking on current management to realize IBM's inherent value. That job, he says, demands an imaginative outsider. Meantime, the catastrophe that wasted his nest egg "really hurts a great deal, and I think about it daily." In this he has lots of company.

By Robert Barker, with John W. Verity, in New York, and bureau reports

STRATEGIES

A 747 REFUELS: BOEING AND DEUTSCHE AEROSPACE MAY BUILD A PLANE SEATING 600 TO 800

BOEING LAUNCHES A STEALTH ATTACK ON AIRBUS

But will its planned superjumbo justify billions in development costs?

Sure, the New Year is a time for optimism, but is Boeing Co. going a bit overboard? The world's airlines lost $5 billion last year, and no one knows which carriers will survive into the next century. But on Jan. 5, the world's top aircraft maker announced it was considering building a plane with 600 to 800 seats, the biggest and most expensive airliner ever. The real stunner was Boeing's partner of choice for pursuing the idea: Deutsche Aerospace (DASA), a key member of Boeing's archrival, consortium Airbus Industrie.

Some in the industry suggest Boeing's move is a bluff to preempt Airbus from forging ahead with a similar plane. After all, why would Boeing want to launch a competitor to its own 400-seat 747? And there may not even be a market for a 600-seat jet. But if demand develops, Boeing's move gives it a shot at dominating the world's next generation of planes—and roping in others to help finance the staggering $10 billion to $15 billion in development costs.

CORNERED MARKET. DASA's reason for cozying up to a U.S. rival is clear. The Germans want to challenge the domination of the Airbus consortium by Aerospatiale, which is owned by the French government. Now fully privatized, DASA is carving a larger role for itself: It bludgeoned the French into surrendering final assembly of the Airbus 321 and the A319, a planned smaller version of the workhorse A320. And last year, it arranged to buy 51% of Dutch planemaker Fokker. Teaming up with Boeing is another way to flex its muscles.

The project raises disturbing questions for Airbus, the world's No. 2 aircraft maker. As early as June, 1991, Managing Director Jean Pierson said Airbus was studying plans for a superjumbo to enter service in the next decade. There is clearly no room for two competing projects. And Pierson has privately said Airbus would never cooperate with Boeing on a plane. But if its German partner sides with Boeing, the consortium's other partners could be left with no choice but to line up behind Boeing.

The flirtation with DASA doesn't threaten Airbus' present line of planes, which range from 150 to 335 seats. Still, Airbus' chief has some face-saving to do. "There's no weakening of the Airbus system, nor any treason committed by any of its partners," Pierson said on Jan. 6. He says that DASA Chief Executive Jürgen Schrempp has been acting on behalf of all of Airbus in discussing the project with Boeing.

Boeing and DASA beg to differ. A DASA spokesman says a pending agreement for a feasibility study is between Boeing and DASA only. Boeing, too, insists its deal is just with the Germans—not the whole consortium. Unlike the government-backed Airbus syndicate, DASA is publicly owned, through parent Daimler Benz. "So, culturally, we've got a lot in common," says Lawrence W. Clarkson, Boeing's vice-president for planning and international development.

FLYING HIGH. Both Boeing and DASA are on the lookout for other partners. The feasibility study group could eventually involve Aerospatiale, the Airbus junior partner British Aerospace PLC, and Russian and Japanese companies.

Given the costs of a superjumbo, the more the merrier—as long as Boeing is lead partner. Despite skepticism about the need for the plane, Boeing can't afford not to grab for the lead at the high end of the market. For 20 years, it has enjoyed a juicy monopoly on the world's largest airliners. That control is starting to weaken, as Airbus' newest planes, the A340 and A330, as well as Boeing's own 777, eat into the lower end of the 747 market. An Airbus superjumbo would squeeze it at the high end.

But even with $4.6 billion in cash on hand, Boeing can't go it alone. After record deliveries in 1992, a sharp order drop-off is forcing it to scale back production. And more and more of its financially stressed airline customers are demanding that it help finance their purchases of planes.

So the $15 billion question remains: Is there a market for a mammoth jet? British Airways PLC is keen on the idea, and several others, including United Airlines Inc., have expressed interest. It will take a lot more than that, however, to produce the 150 orders that Boeing needs to justify production.

AIRBUS' PIERSON IS SCRAMBLING TO SAVE FACE

Boeing says its study should determine whether it's worth developing a superjumbo. Even if the plane never gets built, Boeing's maneuvering with DASA may foul up Airbus' plans. And that would be O.K. by Boeing.

By Andrea Rothman in New York and Dori Jones Yang in Seattle with Jonathan B. Levine in Paris and John Templemann in Bonn

INTEL WON'T MEET THE FEDS IN 'CIRCUIT' COURT

'he FTC is easing up on the chipmaker, but it's still pursuing Microsoft

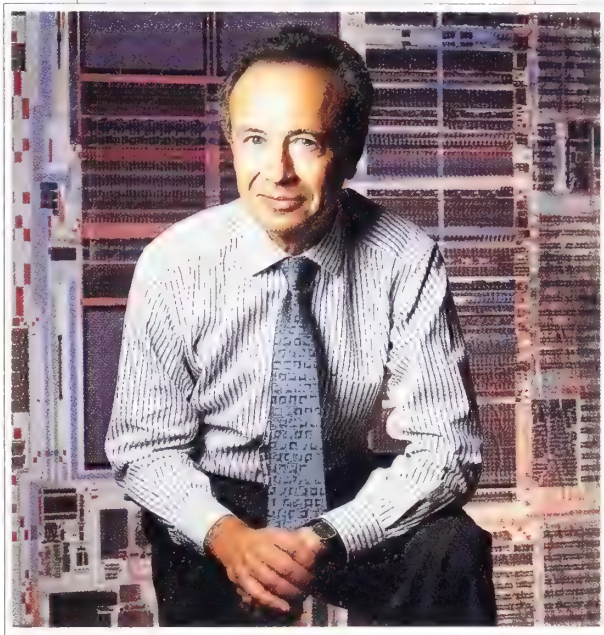
For years, Intel Corp.'s competitors have complained publicly that the microprocessor giant has used unair business practices to squash smaller vals. So it was hardly surprising when ıe Federal Trade Commission launched n antitrust investigation of the Santa lara (Calif.) chipmaker's business pracces. About 18 months ago, it began equesting documents from Intel, which vas forced to turn over some 350,000 ages of information. Soon, it was well nown around Silicon Valley that the gency was interviewing many of ntel's competitors.

But BUSINESS WEEK has earned that the feds' case gainst the world's No. 1 chipıaker is fizzling. The FTC's Buıau of Competition has come up mpty-handed and is unlikely to ecommend that charges be rought against Intel, according) a source close to the matter. TC staffers are expected to forıalize their conclusion in a writen report to the full commission ı the next few months. "The inestigation is not over, but it's ot likely there will be anything) it," the source says.

ILLING HOLES. Another high-tech tan that is the target of an FTC robe, Microsoft Corp., may not e so lucky. As the Intel case vinds down, the FTC's unrelated ntitrust probe of software makr Microsoft is coming to a head. 'o wrap up its 30-month-long inestigation, the FTC staff is reuesting affidavits from softvare competitors such as Lotus)evelopment Corp. and Borland nternational Inc.

Indeed, the agency staff has repared a confidential 12-page outline, btained by BUSINESS WEEK, as a guidene for Microsoft's rivals as they preare their responses. The outline asks or data, for instance, on "How Microoft is Stifling Downstream Competition ı Applications." The document also akes clear that the FTC is looking for xamples in which Microsoft allegedly disparaged" a competitor's products nd purportedly misled competitors bout the direction Microsoft was taking n its products. The affidavits are essenal for solidifying the government's ndings, filling in the holes, "getting the case nailed down," one source says.

Microsoft's software rivals also are scheduling individual meetings with FTC commissioners to drive their points home. The five-member commission is expected to meet in a closed-door session in February to decide what, if any, action to take against the Redmond (Wash.)-based company. On the table for consideration: six unspecified recommendations, including changes in the way the company licenses its software to computer makers. Some staffers were circulating a draft memo recommending the company be split into pieces, but that recommendation has not been forwarded to the full commission.



Intel, led by CEO Grove, denies that its sales tactics violate federal rules—and the FTC seems to agree

Microsoft is not taking the investigation lightly. "We firmly believe that Microsoft has done nothing wrong," says Debra Vogt, the company's senior litigation paralegal. "I wish we could address this directly. That day will come after the commission has reached its decision," she adds.

FTC staffers are said to believe that a case against Intel would be far weaker—despite charges by Intel competitors that the company intimidates its customers into buying Intel chips rather than those made by rivals. James Chapman, vice-president for marketing at chipmaker Cyrix Corp., says his customers complain that Intel threatens to reduce their allocations of its microprocessors if they buy from Cyrix.

'OVER THE LINE.' Intel chips are often in short supply, and the allocations are critical because they determine how many personal computers a manufacturer can produce. Cyrix' Chapman insists these tactics are unfair. "Intel has crossed over the line of business ethics," he declares. The chief executive of one PC maker, who declined to be identified, says his company has felt the pressure: "There's no question in my mind that [buying Cyrix chips] does enter into it when they're allocating chips," he says.

The FTC also investigated complaints that Intel ties sales of its microprocessors to other products such as memory chips. But the commission was unable to find "any systematic company policy of that," the source familiar with the case says.

That doesn't mean Intel, led by CEO Andrew S. Grove, is completely off the hook. Rivals, including Cyrix and Advanced Micro Devices Inc., are challenging in court an Intel plan to charge an extra license fee to computer makers who buy clone microprocessors because of certain Intel-owned patents that cover the use of the chips. Intel General Counsel F. Thomas Dunlap says Intel has every right to charge the fee and adds that Intel's customers shouldn't pay it because they get an implied license when they buy the chip from Intel. Intel has not yet started charging fees, and the suits are pending.

In general, Intel denies that its business practices are unfair. "Our training to our sales force specifically prohibits threatening customers, bundling products, tying, or anything else," that would violate FTC rules, says Craig R. Barrett, Intel's newly named chief operating officer and the executive ultimately responsible for guiding Intel policy.

Although the FTC staff apparently agrees, the commission could still act. Even if investigators recommend no action, it's possible—albeit unlikely—that the commissioners could request further investigation on the matter. Chances are, though, that Intel, unlike Microsoft, has drifted away from the litigious nets cast by the feds.

By Mark Lewyn in Washington and Richard Brandt and Kathy Rebello in San Francisco, with bureau reports

PEOPLE

A STAR GAZER GETS WISHED UPON

Bill Clinton's new sci-tech adviser, John Gibbons, faces a tricky job

John H. Gibbons started his career practicing what he calls "solar-system pediatrics." As a physicist at the Oak Ridge National Laboratory, he helped unravel how nuclear reactions within stars gave birth to the elements found in the universe. The work not only pushed the boundaries of basic science but played a role in the design of nuclear reactors. "It was a grand adventure," Gibbons recalls.

Now, nearly 40 years later, after forays into energy conservation and as head of Congress' Office of Technology Assessment, Jack Gibbons, 63, is heading off on another adventure. But this one is far more daunting than figuring out the sun's progeny. On Dec. 23, Gibbons was Bill Clinton's surprise choice for the job of science and technology adviser to the Administration. His task: to guide the federal government's vast $76 billion-a-year scientific research and development program at a time of sweeping change and increasing budgetary strain. How Gibbons does will affect not just the health of American science and technology but also the competitiveness of U. S. industry.

TRUE BELIEVERS. Gibbons has one item in his favor. The Clintonites are true believers in industrial policy—a big turnaround from the Bush Administration. Transition-team officials talk about pumping hundreds of millions of additional dollars into industry R&D and commercially viable research done at universities and national labs. They also plan to beef up government-run manufacturing extension centers, which will help small companies understand new factory technologies. And Gibbons and others support redirecting defense money to civilian uses now that the cold war is over. "The real war is one of civilian-sector competitiveness," Gibbons says.

This emphasis on commercial technologies worries some scientists. They are concerned that the new Administration will neglect basic science, the wellspring of future advances and industries. Gibbons downplays such fears. "It's foolhardy to say we are a nation that can no longer afford to explore—and that's what basic science is," he says.

Gibbons also argues that Clinton's plans for technology aren't as dramatic a departure from past U. S. policies as they might seem. "We've been picking winners and losers for years," he points out. "Look at agriculture, electronics, biotechnology, and aviation." The missteps, says Gibbons, come when government bureaucrats try to second-guess the market, pumping money into areas such as synthetic-fuels production in which industry has zero interest. That's why Gibbons hopes to broaden industry's input into White House policymaking while, in turn, making sure that companies invest serious money into government-backed projects.

Competitiveness is only one of many sticky issues on Gibbons' agenda. An important question is whether the U. S. should forge ahead with the $8 billion Superconducting Supercollider program and the $40 billion space station. Canning either would mean more money for other research ideas.

Gibbons must also try to guide the enormously productive university research facilities into an era of shrinking financial resources. And he faces the ultimate test of all Presidential science advisers: whether the Clinton Administration, particularly Vice-President Al Gore—who's slated to make many technology policy decisions—will actually take his advice.

RARE M.O. By most accounts, the OTA chief is a shrewd choice for the science job. His appointment surprised many technopundits in Washington, who had expected Clinton to tap an industry R&D veteran. And it brought grumbles from scientists who prefer that the adviser be an eminent researcher, not a longtime policy wonk. But from those who know Gibbons, the praise has been almost embarrassingly effusive. "He may turn out to be the best science adviser any President ever had," says House Science, Space & Technology Committee Chairman George E. Brown Jr. (D-Calif.).

A key to his success, friends and associates say, is a modus operandi that is rare in Washington. Like Clinton, Gibbons shows little ideological bent and makes people feel that he values their ideas. "He has the ability to bring together the two sides of a question—and get it right," says Senator Orrin G. Hatch (R-Utah). "What more could you ask for in a science adviser?"

Gibbons also lets others take the credit. "One of my rules is that if you have a good idea, the best thing you can possibly do is to give it away," he explains. "To do that, you have to be willing to be largely invisible—and I don't mind that." Indeed, Gibbons says that being a quiet behind-the-scenes broker is the best way to push science and technology into the forefront of any Washington debate on the country's economic future.

By John Carey in Washington

JOHN H. GIBBONS

BORN

Jan. 15, 1929, Harrisonburg, Va.

EDUCATION

PhD, physics, Duke University, 1954

CAREER PATH

1954-69 Physicist at Oak Ridge National Laboratory

1962 Co-founded ORTEC, a maker of radiation detectors and other instruments

1973-74 Director, Office of Energy Conservation, Federal Energy Administration

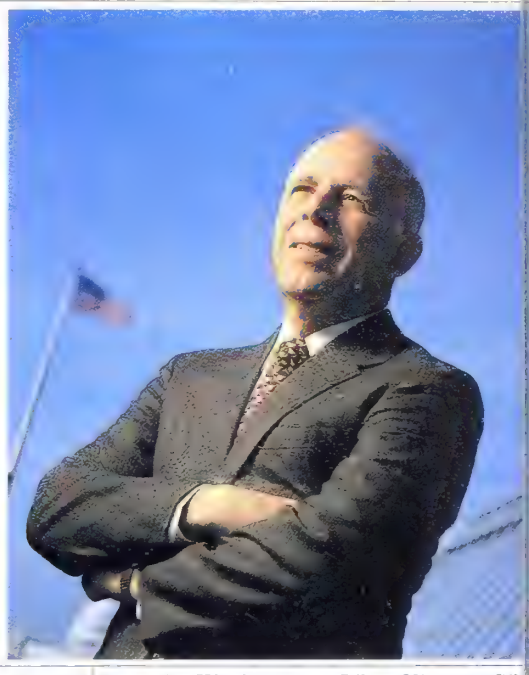
1974-79 Univ. of Tennessee professor

1979-PRESENT Head, Congressional Office of Technology Assessment

HOBBIES

Mountain hiking

DATA: BW



MANAGED CARE: DR. CLINTON HAS GRIM NEWS

With the election of Bill Clinton, the march toward health-care reform has accelerated to a sprint. The favored path to reform is a benign-sounding buzzword called "managed competition," which promises to unleash the free market while controlling its excesses. Clinton has endorsed the concept, many members of Congress like it, and a number of industry groups—from hospitals to large employers—have gotten behind it as well.

But wait until the voters find out what managed competition really means. It involves exactly what meets with little favor in the opinion polls: limited options and limited care. "The American people are willing to share suffering on a lot of things, but not on their health care," says Fred Steeper, a Republican pollster.

Suffering is just what real reform is going to cause—a bit of information that most people don't want to hear. Now, it's up to Clinton to deliver the bad news. Health-care spending of $838.5 billion a year now consumes 14% of the nation's output, up from 9.1% in 1981, according to figures due from the Commerce Dept. on Jan. 7. Extending coverage to 33 million uninsured Americans will drive the number even higher. While health-care reform promises to bring that spending under control, it requires big trade-offs: fewer choices, higher taxes, and possible rationing of services. "The process will demand sacrifice from all parties in the system," warns Judith Feder, the head of Clinton's health-policy transition team.

'STRONGLY OPPOSED.' The managed-competition model relies on managed-care networks—a system that most consumers find unappetizing in the extreme. The networks are formed by employers and individuals banded together into health-insurance purchasing co-ops. In theory, they would force networks of doctors and hospitals to compete on price and quality.

The system may make sense in the abstract, but according to a postelection survey by Louis Harris & Associates Inc., only 41% of those surveyed favored controlling health-care costs through managed-care plans (table). "The majority of Americans are strongly opposed to anything that would limit their choice of physicians," says Drew Altman, president of the Henry J. Kaiser Family Foundation, which funds health-policy research and commissioned the survey.

Another potentially unpopular component of managed competition: increased taxes. Employers now can deduct the cost of coverage they provide their workers, and employees don't have to pay taxes on this benefit. But under managed competition, employer deductions would be limited to the value of a federally determined basic benefits package. An individual who wanted to buy a more generous package would have to pay taxes on the difference. And employers could deduct only the value of the basic plan.

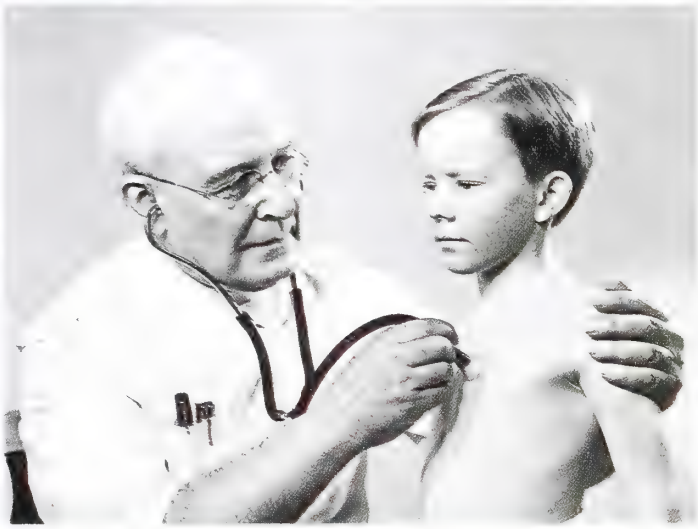
The idea is to make employers and employees more cost-conscious. But "middle-class people will be very skeptical when they hear that their comprehensive benefits are the cause of the system's problems," says Karen Ignagni, director of the AFL-CIO's employee-benefits department. "Limiting government subsidies to Kmart coverage will be unacceptable."

SCALING BACK. Equally unpopular will be any attempt to ration care. Managed care is designed to provide everything a patient needs while eliminating unnecessary care. A growing body of research that analyzes the effectiveness of various treatments should help in that goal. But down the road, if health-care budgets shrink, the definition of "unnecessary" could expand. It's one thing to deny a patient a service if there's statistical evidence that it has only a 1% chance of helping. But what if the odds are, say, 20%? "That's a good question," says one insurance lobbyist. "We have no idea what will happen."

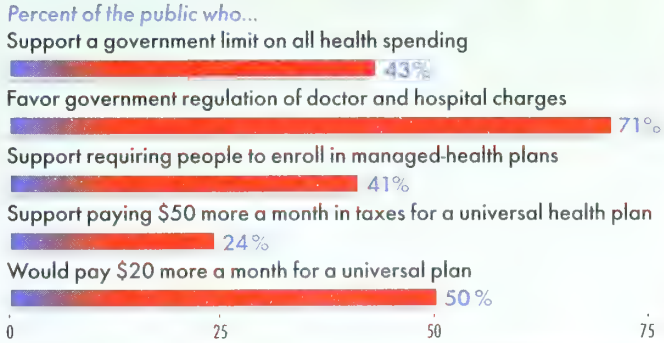
Clinton's challenge is to convince the public that health-care reform is worth the trouble, the trade-offs, and the trauma. He'd be smart to spell out a scary vision to voters: an America that offers state-of-the-art health care that no one can afford.

The President-elect has to level with the American public early on. It helps that Dr. Fixit has a soothing bedside manner. But sooner rather than later, he has to tell the patient that major surgery is required—and the procedure won't be painless.

Garland covers health care and social policy for BUSINESS WEEK.



TAKE A DEEP BREATH: REFORM WON'T BRING THE OLD SYSTEM BACK



ECONOMIC POLICY

GOSSIP SURE BEATS GNP STATS

AEA economists find a common topic: Clinton's controversial picks

Disneyland was just around the corner. But when the American Economic Assn. assembled in Anaheim, Calif., on Jan. 5 for its three-day annual meeting, the talk turned to Washington, some 3,000 miles away. That's because, after more than a decade of feeling ignored by Republican Administrations, the leading lights of economics now figure that they have a shot at returning to policy prominence.

Still, the heady whiff of power at the AEA conference was joined by dismay over the Clinton Administration's early appointments. The choice of Robert E. Rubin and Robert B. Reich, two noneconomists, for top economic posts was bad enough. But what really got the economists' juices flowing was Clinton's choice of University of California at Berkeley's Laura D. Tyson for chairwoman of the Council of Economic Advisers. Tyson, a trade expert who favors government intervention to spur competitiveness, has been faulted for lacking strong macroeconomic skills.

One of her critics has been Massachusetts Institute of Technology's Paul R. Krugman, himself rumored to have been in line for the slot. At the meeting, he averred that the CEA has been downgraded steadily over the past two decades—adding that "I've made enough enemies in the last few weeks, proving that politics is definitely not my game."

Krugman and the others in Anaheim may take comfort in the expected selection of Princeton University economist Alan S. Blinder for the No. 2 spot. They expect Blinder, a solid macroeconomist who has been a BUSINESS WEEK columnist for seven years, to be a counterweight to Tyson. Some at the meeting dismissed the griping as sour grapes. "People were just indulging in a lot of unjustified pettiness," says one economist.

WHISPER, WHISPER. Tyson and Blinder didn't show up in Anaheim—which only seemed to fuel the gossip. Indeed, Lawrence H. Summers of the World Bank, another potential nominee, packed the room for a luncheon speech on Jan. 5. He looked uncomfortable when reference was made to his failure to secure a CEA seat.

At times, the ongoing seminars seemed to be a sideshow to the Washington job saga. Indeed, the meeting's most popular pastime was guessing who would land the third CEA spot. Mentioned as candidates were Paul L. Joskow of MIT and Alan J. Auerbach of the University of Pennsylvania. And there was speculation that Summers might be in the running for some Administration post. If those economists don't get the call, there were many others in Anaheim who seemed willing and eager to receive a summons to Washington.

By Christopher Farrell and Michael J. Mandel in Anaheim, Calif.

RESIGNATIONS

OUT OF THE FIRE AND INTO...?

New York Fed chief Gerald Corrigan is stepping down

The president of the Federal Reserve Bank of New York stood before his 170 officers on Jan. 5 and delivered a bombshell. Speaking in his gravelly mumble, E. Gerald Corrigan revealed a plan he had been kicking around privately for months: After decades of putting out financial fires for the Fed, he was quitting his $250,000-a-year post, effective Aug. 20. Moments later, one aide offered a brief tribute. "For the past 20 years," he said, "you've been in the eye of the storm."

With the possible exception of his mentor, former Federal Reserve Chairman and New York Fed chief Paul A. Volcker, few U. S. central bankers have played crisis manager with such alacrity. A rising star in the Federal Reserve System since 1968 and head of the New York Fed since 1985, Corrigan was the chief strategist behind the central bank's decision to flood financial markets with cash after Wall Street's 1987 crash. He was also an advocate of international standards that have forced lenders worldwide to fortify balance sheets.

Some Fed watchers say Corrigan decided to leave after President-elect Bill Clinton named Lloyd Bentsen, instead of Volcker, as Treasury Secretary. If Volcker had won the job, he might have lobbied for his protégé to follow Alan Greenspan as Fed chairman in 1996. Corrigan denies he wants that post and maintains that it is simply time to move on to the private sector. "He's 51 and wants to make some money," one associate says. "I don't blame him."

CORRIGAN: WILL HE FOLLOW PAUL VOLCKER TO WALL STREET?

GRUELING AGENDA. Corrigan and the five New York Fed directors searching for a successor won't say who is in the running to take over. But a source says the panel already has a short list. Speculation is centering on Corrigan's money market chief, Executive Vice-President William J. McDonough; Stephen G. Thieke, a onetime New York Fed official and co-head of corporate risk management at J. P. Morgan & Co.; Gary H. Stern, Corrigan's successor as president of the Minneapolis Fed; and David W. Mullins Jr., the Federal Reserve Board's vice-chairman. If Mullins gets the nod, Clinton would win his first shot at appointing a Demo-

at to the Republican-dominated board. The New York Fed chief's role as ambassador to the international markets arantees that global issues will rein high on the agenda of Corrigan's ccessor. Following criticism that the d moved too slowly against the Bank Credit & Commerce International, ngress last year beefed up the central nk's powers to monitor international lenders in the U. S. Most of those duties are being assumed by the New York Fed. But with Corrigan also serving as vice-chairman of the policymaking Federal Open Market Committee, head of the Bank for International Settlements' supervisory committee, and co-chairman of a project that is designing a banking system for Russia, some wonder whether the next chief will be able to maintain the same hectic and weighty schedule.

As for Corrigan? "I don't have the slightest idea what I'm going to do," he shrugs. He's expected to join a financial institution, as Volcker did when he became chairman of James D. Wolfensohn Co. Wherever he ends up, though, Corrigan isn't likely to be far from a fire.

By William Glasgall in New York, with Mike McNamee in Washington

TOS

LTIMA'S SECRET: THE RIGHT KIND OF STICKER SHOCK

issan saw an opening in the midsize sedan market—and zoomed in

LES OF THE FOUR-MONTH-OLD ALTIMA ARE RUNNING 10,000 UNITS AHEAD OF PROJECTIONS

Critics called it underpowered and too small for a family sedan. The styling was too unconventional for nservative baby boomers. Besides, the eptics wondered, did Nissan Motor Co. ve the marketing savvy to successful- launch a midsize car, the biggest and ost competitive segment of the autobile industry?

Turns out the critics were wrong. Ined, Nissan's Altima may well be the ttest car in the sluggish auto market. s secret? The sticker price—an eyepping $13,000 for the base model. ven the better-equipped versions run ,500 below the Honda Accord and a ood $2,000 less than a comparably uipped Toyota Camry. "Nissan's hit a me run," says Christopher W. Cederen, senior vice-president of AutoPaci- Group, a Santa Ana (Calif.) market searcher, "and the reason is price."

Recession-weary consumers are snapng up the four-door sedans as fast as issan can turn them out. After just ur months on the market, Altima sales e running 10,000 units ahead of Nisn's projections. The company had exected to sell 100,000 cars in its first odel year. Analysts now figure Nissan will move 120,000 1993 Altimas, and some say the auto maker could sell as many as 140,000. That's double the sales of the Altima's predecessor, the boxy Stanza, in 1990, its best year ever.

A REAL JOLT. Nissan ascribes the Altima's success to its decision to hold the line on size and price when competitors, with such models as the Toyota Camry and Mazda 626, were moving upmarket with bigger cars. "We saw a big vacuum developing, and we knew that there were still a lot of people shopping for a $15,000 car instead of a $20,000 car," says Earl J. Hesterberg, vice-president and general manager of the company's Nissan Div.

The 39-year-old Hesterberg gets full credit for masterminding the launch of the Altima, Nissan insiders say. Within a month of taking over the division during a management shakeup in August, 1991, he began pressing the company to drop the Stanza name when the all-new 1993 version came out. Only then, Hesterberg argued, could the car shed its dreary image. Told that it was too late for a name change, he settled for a tiny "Stanza" decal inconspicuously mounted on the rear of the car.

> 'We were more aggressive on pricing than our finance people thought we should be,' says Nissan's Hesterberg

Hesterberg also won a hard-fought battle with the Japanese parent company to price the car well below its competitors. "We were more aggressive on pricing than our finance people thought we should be," he says, "but we wanted to make sure we jolted the public."

Hesterberg wants nothing less than to use the Altima to create a new image of reliability and quality for Nissan, which has watched its sales in the U. S. slide by more than one-third since their 1985 peak. To that end, he has focused virtually all of Nissan's national advertising budget—an estimated $120 million—on the Altima and on the company's new Quest minivan. And he has jettisoned the often-ridiculed tagline "Built for the Human Race." Now, ads end with "It's time to expect more from a car."

The campaign positions the Altima as a car that is as finely crafted as luxury models but at a fraction of the price. The ads poke gentle fun at archrival Toyota Motor Co. by mimicking the techniques—such as balancing 10 wine glasses on the car hood—that Toyota uses to show off its Lexus luxury sedan, which costs three times as much. Says Larry Miller, general manager of Chrysler Corp.'s Jeep-Eagle Div.: "The ads are fantastic."

For Nissan, the early results look fantastic as well. "I think what we're seeing is the beginning of a renaissance at Nissan," says AutoPacific's Cedergren. Nearly 50% of Altima buyers say they have never been in a Nissan showroom before. "We're getting a fresh look by people who had never considered buying a Nissan," says Robert W. Rinkel, general manager at Lew Webb's Irvine Nissan in Irvine, Calif. "But what's really gratifying is the Toyota salespeople coming in to look at the car." It would really tickle Hesterberg, though, if one of those salespeople actually drove out with an Altima.

By Larry Armstrong in Los Angeles

RETAILING

SUPERSTORE REVENUES ARE GREAT, BUT SO ARE THE DEMANDS OF RUNNING A FOOD OPERATION

ATTENTION KMART SHOP... HEY, WHERE IS EVERYBODY?

After a dismal Christmas, a shift to superstores looks risky

By now it's well known that retailers, to their vast relief, had a bang-up Christmas in 1992. Many chains reported holiday sales gains of 9% or more. Even Sears, Roebuck & Co., the beleaguered behemoth, reported cheering results of about 8%.

So what happened to Kmart?

The No. 2 operator of discount stores, with about $39 billion in estimated 1992 revenues, had December same-store sales gains of just 2% or so. By contrast, archrival Wal-Mart Stores Inc. logged an estimated 9% gain (chart).

To explain the results, Kmart Corp. officials point to the weak economies in California and Michigan as well as a deliberate strategy to widen margins by running fewer holiday promotions. But the company had been looking for gains of 4% or so. So the pressure is on to produce better numbers in 1993—just when the retailer is contemplating a dramatic change in its strategy of renewal.

Since 1989, Chairman Joseph E. Antonini has been overhauling the depressing, poorly stocked locations that were turning Kmart into an also-ran against Wal-Mart. Changes included widening store aisles, upgrading merchandise, and installing a state-of-the-art system for tracking and replenishing inventory in the chain's 2,400 stores.

It's a strange time to shift gears. Antonini's save-the-company strategy has doubled Kmart's share price to a current 23 or so since September, 1990. Margins widened, too, even though sales growth failed to take off. Sales per square foot at Kmart discount stores hover around $184, vs. about $275 at Wal-Mart. But "the fact that they are holding their own is evidence of a dramatic turnaround," says analyst Michael Exstein of Kidder, Peabody & Co.

FLAGGING PACE. That's not enough to persuade Exstein to recommend Kmart stock, even though it's selling at a discount to the Standard & Poor's 500-stock index. He's hesitating in part because many consumers continue to think of Kmart as the dowdy purveyor of blue-light specials. But there's more to it than that. Exstein and others on the Street aren't happy that Antonini doesn't plan to maintain the pace of renovations and enlargements at about 450 stores a year. Instead, he wants to slow down the renewal program to about 200 in 1993, even though the program is only about half done.

The slowdown is meant to accommodate Antonini's latest grand scheme. He's thinking of opening up to 450 Super Kmarts—combination supermarkets and discount stores—in the next five years. "He's changing the renovation plan mid-stream," says Exstein. Fifteen of the 200 renewals in 1993 will be for Super Kmarts, up from four test sites.

The format that has fired Antonini's imagination offers one-stop shopping to consumers looking for discount-store offerings plus groceries. The Medina (Ohio) Super Kmart grosses more than $60 million annually, vs. $12 million for the smaller store it replaced. These stores are also meant to counter Wal-Mart, which has already shot ahead with some 30 such "supercenters" of its own.

TOUGH TASK. Outside consultants wonder if Antonini needs the aggravation, especially since they expect the original renovation program to yield better sales. Rushing to match Wal-Mart's fast start, by contrast, exposes Kmart to new risks. Selling food is dramatically different from selling microwaves and underwear. The typical discount store, for example, turns inventories four times a year or so, while supermarkets do so 20 times. So it takes a far nimbler organization to keep shelves stocked—and Kmart is still perfecting its inventory system for its discount stores.

Meanwhile, Wal-Mart has been buying its own grocery wholesaler and building new distribution centers to nurture its superstores. "Wal-Mart's doing all the right things," says Sid Doolittle, a retail consultant at the firm of McMillan/Doolittle. "It's not a world-class grocery store yet. But they'll get it right."

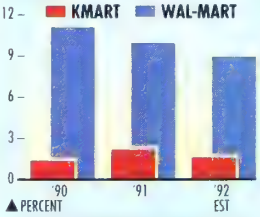
Kmart is in danger of taking on too much at once. Along with renovating the basic stores and building new Super Kmarts, it has big plans for seven specialty stores, including OfficeMax and Borders Book Shops, both acquired recently. As a result, Kmart has boosted capital expenditures from $542 million in 1987 to about $1.4 billion in 1992.

Despite the pitfalls, Kmart considers the Super Kmart strategy too strong to resist. A company spokesman argues that with only 15 such stores scheduled to be built in 1993, it still has time to back away. For investors, the question is whether this giant retailer can improve on its dismal Christmas by setting itself yet another monumental task in a brutal marketplace.

By David Woodruff in Detroit and Christopher Power in New York, with Wendy Zellner in Dallas

KMART PLAYS CATCH-UP

COMPARABLE-STORE SALES INCREASES FOR DOMESTIC GENERAL-MERCHANDISE STORES



DATA COMPANY REPORTS, KIDDER, PEABODY & CO

HE TOP 10 REASONS LETTERMAN OULD BE WRONG FOR CBS

any doubt Dave can carry his fans to a new network and time slot

Howard Stringer has made a New Year's resolution: no more predictions about David Letterman. t the president of CBS Broadcast oup can't resist a chuckle. Stringer ent months wooing NBC's restless talk ow host to come to CBS. Now, as a n. 15 deadline looms, NBC is casting out for ways to match his munificent fer. And Stringer is enjoying his ri- l's discomfort: "It's a wonderful chess me in which any move they make ks losing their queen."

Perhaps. But not everybody thinks ringer has checkmated NBC. Some me- a buyers and TV executives contend at CBS' $28 million, two-year offer to tterman is an Olympian gamble. They onder how much of his young audience ll follow him from the home of *Satur- y Night Live* to the network of *Major ad*. And they worry that CBS won't be le to persuade enough of its affiliates carry his show at 11:35 p.m., opposite e *Tonight* show with Jay Leno.

OUGH CHITCHAT. Nor is anyone count- g out NBC. Letterman has made no cret of craving Leno's time slot. But e network is brainstorming for other ays to keep both stars. It could leave eno in place while offering Letterman series of prime-time specials in addi- n to his regular show. Or it could fer Leno a shot at prime time. Execu- es close to the talks say NBC President bert C. Wright may try to strike such compromise before Jan. 15.

One reason for Letterman to think be- re he leaps: Late-night TV has gotten r tougher in the days since he played eanup hitter to Johnny Carson. NBC ill makes $70 million to $100 million a ar from Leno and Letterman. But here NBC used to dominate the talk ow circuit, it now competes with a ggle of chatfests (table). With more the way, sponsors will be able to mand lower ad rates: "CBS could take bath initially," says Grant Tinker, for- er chairman of NBC.

Some media experts think if NBC must oose, it would be better off with Leno. head-to-head competition with Letter- an, Leno's easygoing style may attract broader audience. *Tonight*'s ratings e 13% lower than Carson's numbers in e same period last year. But they have bounded recently, despite NBC's gener- ratings collapse. Leno has "a charm- g, boyish image that plays well in [the 11:35] time period," says Gene DeWitt, head of buying firm DeWitt Media. By contrast, "Letterman's schtick is appealing to a relatively small group of fans."

The bad news for CBS is that its own viewers may not be among them. Letterman's fans tend to be college kids or twentysomethings, while CBS viewers are the oldest of all the networks. Letterman's cynical sensibility also plays best in major markets, while many of the strongest CBS stations are in rural areas. "Does he fit at CBS? The answer right now is 'no,'" says Jim Waterbury, chairman of NBC's affiliate board.

To succeed, Stringer must also persuade about 30% of CBS affiliates to drop syndicated programs such as *Cheers* or *Arsenio*, which currently air at 11:35. Some of the stations are locked into multiyear contracts, and many of the shows are popular. "We would tamper with audience loyalties only gingerly," says Alan Bell, president of the broadcast group at Freedom Newspapers Inc., which owns four CBS affiliates. Stringer plans to offer incentives such as extra network compensation to persuade affiliates to carry Letterman. And he insists Letterman would broaden his audience with an earlier time slot on CBS.

SHRINKING PIE. But Letterman can do little about the growing competition. Comedian Chevy Chase is readying a new talk show for Fox Broadcasting Co., while *Saturday Night Live*'s Dana Carvey may develop a show at NBC if Letterman bolts. And all of these programs are fighting for a shrinking pie: Overall late-night viewership declined 3% in the recent November sweeps period compared to last year. Only hawkish commentator Rush Limbaugh and *Nightline*'s Ted Koppel gained viewers.

Few observers fault Stringer for pursuing Letterman. His mere presence could revitalize CBS' moribund late-night schedule. But Stringer knows that Letterman had better be a bona fide hit. Failing at $14 million a year is one Stupid Human Trick that's sure to bomb.

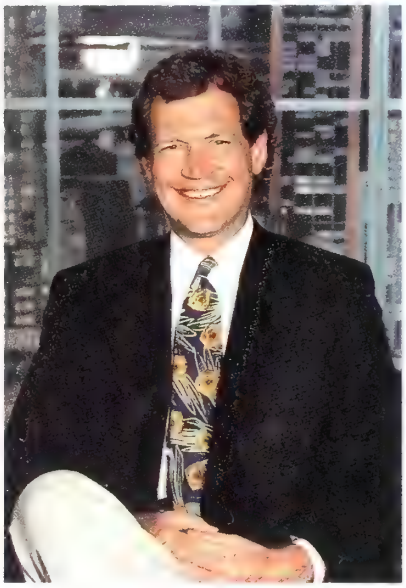
By Mark Landler in New York

close up

LATE NIGHT WITH DAVID LETTERMAN
11:35 PM 2

TALK, TALK, TALK

By Jan. 15, NBC must match a $14 million-a-year offer or lose David Letterman to CBS. If Letterman does defect to the Tiffany network, he will face plenty of new competition. Chevy Chase and Dana Carvey may soon add their voices to the late-night babble. We pick winners and losers from the possible new lineup



David Letterman

11:30 9 ARSENIO HALL; 60 min.
Ratings are skidding, and Letterman and Chase could steal some of his key stations. Even a sax-playing President won't help now

11:35 2 DAVID LETTERMAN; 60 min.
No. 1 on everyone's Top 10 list. But please, Dave—no jokes about Larry Tisch's tight wallet. And how funny are Stupid Pet Tricks before midnight?

11:35 4 TONIGHT; 60 min.
NBC's Hamlet act makes Leno look like a prince among knaves. Plus, his ratings aren't half-bad. Maybe nice guys do finish first

12:30 9 WHOOPI GOLDBERG; 30 min.
Sister Act may have been a surprise hit. But viewers aren't making a habit of this pretaped gabfest

1:00 9 RUSH LIMBAUGH; 30 min.
He struts. He frets. He promotes himself. And people are buying it. Who said the Reagan Revolution ended last November?

In Business This Week

EDITED BY HARRIS COLLINGWOOD

THAT SHUT-OUT FEELING

Every year, Louis Harris & Associates compiles its Alienation Index, measuring popular feelings of powerlessness, frustration, and economic inequity. It has climbed sharply in recent years. Here's the percentage of people who said "yes" to the following questions in 1972, 1985, and 1992:

Do you tend to feel:	Percent answering "yes" '72	'85	'92
The rich get richer and the poor get poorer?	67%	79%	83%
What you think doesn't count very much anymore?	50	62	62
Most people with power try to take advantage of people like yourself?	43	65	71
The people running the country don't really care what happens to you?	46	65	71
You're left out of things going on around you?	25	48	48

DATA: LOUIS HARRIS & ASSOCIATES INC.

AS AIRLINE MERGERS SOAR . . .

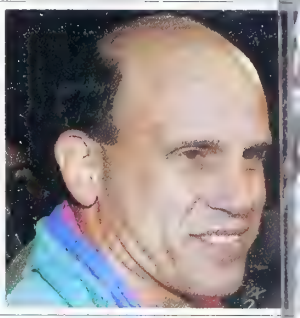
▶ The Bush Administration's Transportation Dept. is still busy. It was set to approve on Jan. 7 a $450 million investment in Continental Airlines by Air Canada and Air Partners, which is controlled by Texas investors David Bondermand and James Coulter. Transportation officials also plan to grant Northwest Airlines and KLM Royal Dutch Airlines permission to operate as a single airline.

. . . UNITED CLIPS ITS OWN WINGS

▶ As if to illustrate why U. S. carriers are seeking foreign investors, yet another American airline has announced a restructuring. On Jan. 6, United Airlines unveiled moves designed to save the beleaguered company $400 million annually. The carrier, which lost $332 million in 1991 and $166 million during the first nine months of 1992, will lay off 2,800 employees and forgo hiring an additional 1,900. Some upper-level managers of the nation's second-largest airline will take a 5% salary cut, and United will pare unprofitable domestic flights.

United thinks its problems merit Presidential attention. Its CEO, Stephen Wolf, has asked President-elect Bill Clinton to appoint a commission to study the woes of the U. S. airline industry.

TOUPEE, HIS DEBT TO SOCIETY



He's fit, he's rested, and he's ready to rejoin society. After 22 months in the can, Michael Milken, about 15 pounds lighter and *sans* toupee, emerged on Jan. 3 from a federal prison in Pleasanton, Calif. The next day, he checked into a halfway house in rundown East Hollywood, Calif.

The 46-year-old financier is going back to work, though he won't be pulling the 20-hour days he regularly logged at Drexel Burnham Lambert. Unt his Mar. 2 release, he'll toil from 6 a.m. to about 6 p.m. at th Los Angeles law firm of his pal Richard Sandler, earnin $1,300 a week. He made about $1,046 per second in 1987, whe Drexel paid him $550 million in salary and bonuses.

Now that he's out of stir, Milken is also free to don h trademark black toupee once again. But with the approval o his daughter, he's opting not to, says former Drexel colleagu Lorraine Spurge. She adds: "The family is very happy."

FALLOUT FROM EUROPE'S LATEST SPILL

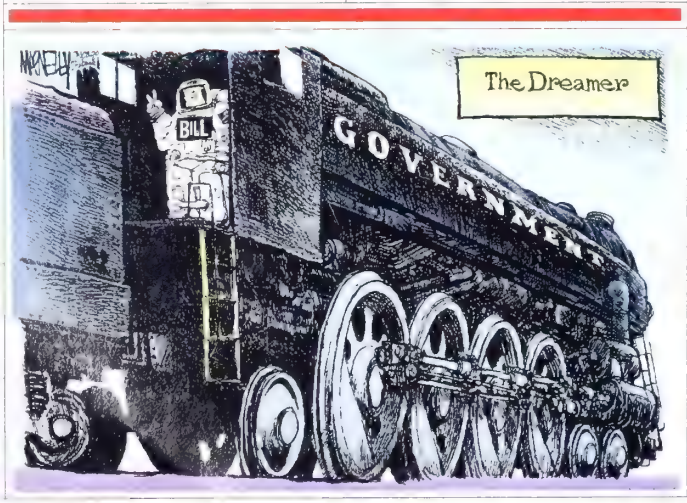
▶ The Jan. 4 oil spill near the Shetland Islands is helping to mobilize lobbying for tougher environmental standards in the European Community. A grounded tanker, the 45,000-ton Braer, spewed 620,000 barrels of oil—twice the amount of the Exxon Valdez spill—near the environmentally fragile islands off the coast of Scotland.

The accident is the second major European spill in a month, and the environmental group Greenpeace International is taking advantage of the public outrage. It will seek laws to phase out older, single-hull tankers. It also wants to require owners and operators to shoulder unlimited liability for environmental damage. Britain's Transport Dept., meanwhile, is investigating whether the Braer's crew abandoned ship prematurely, making it impossible to tow the ship off the rocky Shetland coast.

THE EPA FINGERS SECONDHAND SMOKE

▶ Business would be wise to get active about passive smoking. An Environmental Protection Agency report scheduled for release on Jan. 7 found that secondhand smoke can cause cancer in adults and poses a healt threat to children. The conclu sion, by a panel of scientist was disputed by the tobacc industry, which could fac more stringent regulation o smoking in public places.

While the EPA doesn't regu late indoor pollution, the Oc cupational Safety & Healt Administration is expected t consider the EPA report in it rulemaking proceedings. EP Administrator William Reill has suggested that employer could be legally liable if the knowingly expose workers t a health hazard.



AN ANTI-MICROSOFT ALLIANCE FOR AT&T

▶ Novell and AT&T appear t have found another way t gird against the growing pow er of Microsoft. The two an nounced on Jan. 6 that the will link AT&T's business phone systems with Novell' computer-networking soft ware. That could allow PC us ers to automatically dial a cal from a computerized phon list and store notes associate with that phone number o the PC network. Last month Novell agreed to buy AT&T' Unix software business, a move widely interpreted as a defense against Microsoft.

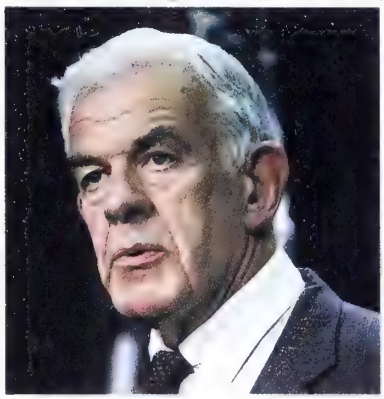
EDITED BY STEPHEN H. WILDSTROM

DO THE DEMS REALLY WANT TO CLEAN UP CAMPAIGN FINANCING?

At the Kentucky Derby last May, Democratic Party Chairman Ronald H. Brown approached Senator Mitch McConnell (R-Ky.), seeking an odd bit of assurance about the Democratic leadership's legislation for campaign-finance reform. "Tell me that George Bush is going to veto that damn bill," Brown said to the leading GOP opponent of the measure.

The exchange captures the Democratic dilemma posed by the campaign-finance mess. With Bill Clinton in the White House, Democrats can no longer indulge in high-road moralizing, confident that a veto will save them from living with the reforms they pass.

Trouble is, there's no consensus on how to fix a system that everyone agrees gives incumbents unfair advantages. The issue provides a good test of the Democrats' will to tackle the tough problems facing the country. The battle will also measure Clinton's commitment to the reforms he endorsed during the campaign. But the men on the spot will be House Speaker Thomas S. Foley (D-Wash.) and Senate Majority Leader George J. Mitchell (D-Me.), who both say campaign reform is one of their top three priorities this year.



FOLEY CALLS REFORM A TOP PRIORITY

SOFT MONEY.' The leadership bill, introduced in the House on Jan. 4, is identical to the measure that Bush killed last year. It would set voluntary spending limits, with tax dollars given to candidates whose opponents bust the ceilings. Total contributions from political action committees, now unrestricted, would be capped at $200,000 for each House candidate and 20% of the spending ceiling for Senate contenders. In addition, the proposal would require television stations to provide low-cost airtime to candidates. And it would plug the "soft money" loopholes that exempt millions of dollars channeled through political parties from the contribution limits.

But the measure faces daunting challenges. House members, who scramble constantly to fund their biennial races, are far more enthusiastic than senators about spending limits and public funding. Corporations, trade associations, professional groups, and unions oppose limits on their PACs. Party officials are resisting the curtailment of soft money. And the very Clinton victory that makes reform achievable makes Democrats less willing to surrender incumbents' fund-raising advantage.

BUSINESS AS USUAL? Reformers fear that reluctance to rein in soft money will become the deal-buster. "If there's no effective fix on soft money, there's no campaign-finance bill that's worth anything," says Common Cause President Fred Wertheimer. And despite voter grumbling about Congress, there's little grass-roots pressure for action. "In the absence of organized voter outrage, members of Congress might fall back into their patterns of business as usual," frets Ellen Miller, executive director of the Center for Responsive Politics.

But many Republicans think doing nothing may be better than the Democratic plan. They say spending limits and public funding would boost the value of the free publicity and perks enjoyed by incumbents, and discounted TV time could attract swarms of third-party fringe candidacies.

Despite the difficulties, reformers think they will prevail. Senator David L. Boren (D-Okla.) predicts there is "a very good chance" to enact a reform bill during the first 100 days of the Clinton Administration. Adds Foley: "We are under the close scrutiny of the American people. [They] have signaled their impatience with the pace of reform."

For years, the opening of Congress has been marked by bold words on campaign finance, only to have the issue crushed by partisan divisions and rampant self-interest. The election of a Democratic President makes action possible, but it may not be enough.

By Richard S. Dunham

CAPITAL WRAPUP

THE SENATE

Campaign junkies still suffering post-November withdrawal are about to get a rush from a Texas free-for-all. Governor Ann Richards guaranteed a wide-open race on Jan. 4 by appointing Railroad Commissioner Bob Krueger to fill the Senate seat of Treasury Secretary-designate Lloyd Bentsen. Krueger, a Shakespeare scholar and former moderate House member, will face a vicious struggle just to make it into a runoff in a special election this spring. One likely challenger: former Texas Attorney General Jim Mattox, a fiery populist who is Richards' archenemy—and who has earned a reputation as one of the toughest campaigners in the nation.

With the Democrats split, Republicans have a good chance to gain the seat—except the GOP, too, has internal divisions. State Treasurer Kay Bailey Hutchison, a pro-choice moderate from Dallas, is the Establishment favorite. But conservative Representative Joe Barton is picking up strength among Christian fundamentalists. And Representative Jack Fields hopes a big GOP vote in his hometown of Houston will give him an edge. More candidates are sure to enter the fray. The state's last special Senate election, to fill Lyndon B. Johnson's seat in 1961, drew more than 70 contenders.

FORECASTS

In a few weeks, Bill Clinton will issue a budget showing sharp reductions in the federal deficit during his term. Before taking the numbers too seriously, though, consider the Bush Administration's record in predicting deficit reduction. In his parting-shot budget projections, Budget Director Richard G. Darman forecasts a deficit of $292 billion for fiscal 1994. In his first budget, Darman projected a surplus of $10 billion for the fiscal year that begins Oct. 1. The forecast, issued in January, 1990, overestimated 1994 revenues by $178 billion and understated outlays by $125 billion.

MARTIN SMOLINSKI

HOW CLINTON WILL DEAL WITH JAPAN

Policy shifts should help U.S. industry compete

Judging from all the high-level Japanese calling on Senator Jay Rockefeller lately, you would think he was hip-deep in major trade legislation. In one week, the West Virginia Democrat received former Ambassador to the U. S. Nobuo Matsunaga, followed the next day by a top aide to Foreign Minister Michio Watanabe. Four days later, who should come knocking on the door but Sony Corp. Chairman Akio Morita and other top industrialists.

Ever since the November election, Tokyo has sent a stream of emissaries to the U. S. to try to gauge whether its worst fears about President-elect Bill Clinton will be realized. "They assume that if you're a Democrat, you have a big 'P' for 'protectionist' emblazoned across your suit coat," says Rockefeller. His prediction: Clinton will be neither a free-trade ideologue nor an ardent protectionist. Instead, Rockefeller expects him to be a "results-oriented" problem solver, who will squeeze Tokyo a bit harder for trade concessions—while devoting most of his energy to improving U. S. competitiveness.

YAWNING GAP. Without any grand pronouncements, Clinton is quietly staking out a new approach toward Tokyo. That policy will evolve largely as a consequence of Clinton's long-term domestic economic agenda. In essence, after badgering Japan for years to be more like America, the U. S. under Clinton will aim to compete with Japan by borrowing some of the best pages from Tokyo's playbook. Clinton's emerging industrial-policy strategies mark a key shift from the Reagan and Bush Administrations, which believed the only way to address Japan's competitive challenge was through trade pressure. Clinton will use additional tools, such as more public funds for civilian research and incentives to nurture high-tech industries.

Sure, trade will still be hot. The U. S. trade deficit with Japan could surge toward $50 billion when final 1992 figures are announced, and the gap may widen in 1993, as Japan's domestic slowdown makes companies less inclined to buy American goods. An early test of Clinton's resolve will come in March, when the U. S. is expected to report that Japanese electronics makers missed a Jan. 1 deadline to buy 20% of their microchips from foreign suppliers.

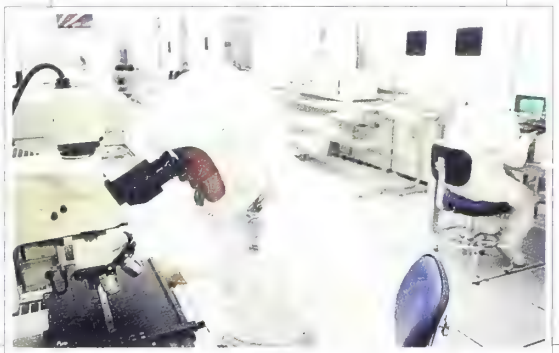
The chipmakers are talking to American automotive-parts suppliers about teaming up to press for retaliatory tariffs if Japan's fourth-quarter total comes in at less than 18%. U. S. auto-parts makers are steamed that Japan's car companies aren't moving fast enough on a pledge to double U. S. purchases by 1994. "We need to demonstrate that the power of the U. S. government is behind the effort to open this market," says Linda Hoffman, vice-president of the Automotive Parts & Accessories Assn.

Clinton's Jan. 6 meeting with the chairmen of Detroit's Big Three and the United Auto Workers leader Owen Bieber also symbolizes the new Administration's willingness to listen to U. S. industry. Pointedly, executives from Japanese companies with U. S. manufacturing operations were absent. In one arena of keen interest to Detroit, Clinton is expected to review a ruling that allows Japan to sell certain minivans and sport utility vehicles in the U. S. without paying 25% truck duties. "I'm very optimistic that we're entering a new era of mutual understanding," says Chrysler Corp. President Robert A. Lutz.

But few analysts in Washington or Tokyo believe Clinton will tilt toward a full-fledged protectionist stance, slamming down the gates to the U. S. market with high tariffs. Japan is hoping for the best. "We have to take a bad climate for granted for the initial stage," says Yukio Okamoto, a former senior Foreign Ministry official who now heads a consulting firm. "We should acknowledge the managed-trade approach as a necessary evil for the first or second year."

LAB PARTNERS. But trade won't be the centerpiece of Clinton's economic strategy. In what would have previously been taboo, Clinton staffers are laying plans to shift federal research funds from military to civilian purposes and beef up funding of optoelectronics, advanced materials, and other critical technologies. Currently, the military gets more than half of the $76 billion in federal R&D. "Over time, we see this going from 60% defense to 50-50," says a tech transition team member in Little Rock. That would mean a shift of $7 billion into civilian projects. "We will see aggressive civilian-technology programs," says a staffer for Vice-President-elect Al Gore.

It's still early to tell how profound an impact that will have. But federal labs, worried about their own funding, are scrambling to line up joint research deals with American companies. Lawrence Livermore National Laboratory in California, for example, has signed deals with GM, Boeing, Caterpillar, and others to disseminate its technologies. In one $3 million project, Livermore is working with General Motors Corp.



AT INTEL: NEW CURBS ON JAPAN'S CHIP EXPORTS?

LASERS AT LIVERMORE: JOINT R&D DEALS ARE BOOSTING THE GLOBAL COMPETITIVENESS OF U.S. COMPANIES

HOW CLINTON'S PROGRAM WILL AFFECT JAPAN

TECHNOLOGY POLICY

- U.S. industries could be bolstered by Clinton plan to shift more of $76 billion in federal R&D to civilian technologies
- Funding for Commerce Dept.'s Advanced Technology Program will be increased
- The Administration will create more manufacturing extension centers to transfer technology and skills to smaller U.S. companies

JAPANESE INVESTMENTS

- Japanese companies in the U.S. will face greater tax scrutiny from the IRS
- Treasury Dept., under Bentsen, may discourage some purchases of U.S. high-tech companies

ANTITRUST

- American companies will be allowed more room to conduct joint research and joint manufacturing
- Justice Dept. will pursue cases against foreign companies for antitrust violations on U.S. soil

DATA: BW

) develop an advanced laser that could elp GM improve how it cuts and welds ody parts.

The Clinton camp will also nurture igh-tech industries through R&D tax redits and will create dozens of manuacturing-technology centers to help mall businesses apply the latest techiques. The Clintonites considered, but re now leaning against, setting up a eparate civilian technology agency. Intead, they want to increase funding for xisting programs. One candidate is the dvanced Technology Program manged by the Commerce Dept.'s National nstitute of Standards & Technology NIST). It currently receives only $67.8 illion a year. At the Pentagon, Clinton taffers expect to boost funding for the ong-controversial Defense Advanced Research Projects Agency (DARPA).

Antitrust is another field where subtle hifts could have an impact on U. S.-Japnese competitive battles. Many of Clinon's economic advisers appreciate the dvantages of the German and Japanese ndustrial combines. The Justice Dept. ould allow U. S. mergers that bolster lobal competitiveness, while at the ame time going after foreign compaies for collusive practices on U. S. soil.

If Clinton's Administration follows hrough, trade conflicts with Japan will e diffused, because "trade will be only part of a much larger competitive trategy," says Ellen Frost, senior felow at the Institute for International Economics, a Washington think tank. "If we have a more proactive approach and a variety of policy instruments," says a Clinton transition staffer in Little Rock, "we won't have to rely so much on trade policy" to prop up endangered domestic industries.

It's all heady stuff, but there are perils aplenty. Democratic trade hawks in Congress, such as House Majority Leader Richard A. Gephardt (D-Mo.), could push Clinton toward overtly protectionist policies. Tokyo may chafe at some Clinton policies that would curb Japan Inc.'s freedom of maneuver in the U. S. And Japanese companies, already irate at pressure to make what some regard as "charity" purchases of American goods, are sure to balk at deals that set targets for buying U. S. parts.

'COLD FACTS.' But efforts to put the best face on the Clinton approach seem to be in full swing in Tokyo. Republicans, once lauded, are now excoriated for preaching free trade while cutting specific market-opening measures. Clinton, once scorned as a protectionist, is now hailed by some as a pragmatist and deep thinker. "Clinton is eager to learn the core of the problem of each issue," says a senior Japanese auto executive. "He will judge on plain, cold facts." Adds the Ministry of Finance's Eisuke Sakakibara: "We expect greater intellectual integrity [from the Democrats]."

If there is a flaw in Clinton's grand design, it is that none of his foreign-policy picks so far is a specialist on Japan or even Asia. And his trade-team captains—Los Angeles lawyer and campaign manager Mickey Kantor as U. S. Trade Representative and Democratic National Committee Chairman Ronald H. Brown as Commerce Secretary—have little relevant experience.

Both have Japan ties, however, albeit of dubious value in their new posts. A superlobbyist, Brown has represented several major Japanese electronics companies. Kantor's law firm is a paid foreign agent for NEC Corp., a link that might prompt him to abstain from dealing with semiconductor issues for a year.

But neither of them is expected to be in the driver's seat on policymaking. Clinton's trade-policy heavyweights are more likely to be Treasury Secretary-designate Lloyd Bentsen and Laura D. Tyson, an economist at the University of California at Berkeley who will head the Council of Economic Advisers. Bentsen has proven willing to threaten retaliation to force Japan to open its markets.

Tyson, a self-described "cautious activist" when it comes to managed trade, champions policies that nurture high-tech industries and punish foreign attempts to undermine them. Together, Tyson and Bentsen are likely to tip the balance in interagency debates over Japanese acquisitions of some U. S. high-tech companies. Bentsen, who will chair the reviews, tried in 1990 to halt Nippon Sanso Co.'s purchase of Semi-Gas Systems, a microchip equipment company. Tyson also tilts toward national ownership of critical technology companies.

The big payoff that Clinton's Administration will strive for is a more productive U. S. economy that would, incidentally, be a far more effective competitor to Japan. The Clinton policy is far from perfect, and elements of it are largely untested. But it reflects the emergence of a pragmatic, nonideological approach, in sharp contrast with Republican Administrations. And Japan can hardly complain: It's just what Tokyo has been urging on Washington for years.

By Amy Borrus, with John Carey, in Washington and Karen Lowry Miller in Tokyo with bureau reports

FORD OF EUROPE: SLIMMER, BUT MAYBE NOT LUCKIER

It has slashed its staff and has a hot new model, but bad timing could spoil its plans

THE NEXT THREE YEARS WILL BRING A FLOOD OF NEW PRODUCTS AS FORD STRUGGLES FOR A TURNAROUND

For two humiliating years, Ford of Europe Inc. has been vying for billing as Europe's worst-performing carmaker. Ford has substantially undershot its market-share target, contributing to a costly overhang of inventories. It has incurred heavy costs for layoffs and restructuring. All told, it rang up losses of about $2 billion over the last two years (chart). And just last month, the company moved to slash an additional 10,000 employees.

Granted, with the recession, most of Europe's car companies face hard times. But Ford got fat and lost its deft hand for turning out pacesetting models and marketing them with flair. Ford executives expect European industry sales to slide 7.8% this year, to 11.8 million units. Currency upheavals are compounding Ford's problems.

KEY MOVE. To get back in fighting trim, Ford has slimmed both its white- and blue-collar work forces. Now comes the most critical part of Ford's turnaround plan: a flood of new products, spread over the next three years. In that effort, nothing is more important than the Mondeo, a midsize car unveiled on Jan. 6.

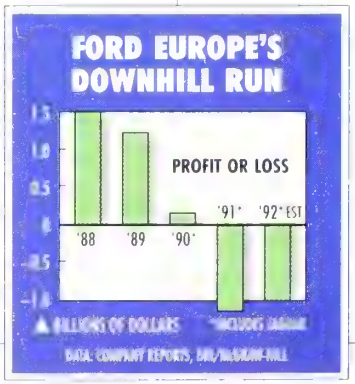
In a $6 billion program, the new car is another effort by Ford to develop a "world car" (page 46). Initially, it replaces Ford's 10-year-old Sierra model in Europe. "It's what Ford of Europe is hinging a complete turnaround on," says William Fike, the company's president. Alexander J. Trotman, president of the Ford Automotive Group, says he expects Mondeo to account for one-fourth of European sales. "It's a hugely important vehicle for Ford," he says. "It's the biggest amount we've ever spent on one product." Later, it will be rolled out in North America to replace the Tempo and Topaz.

Ford's European dealers are hungry for the new model. No wonder. For too long, Ford left a gap in its mid-market product line and has relied on smaller models such as the Escort, which proved a design and financial embarrassment. "Recent mode have lacked perfomance an imagination," says Bria J. W. Lewis, joint managin director of Godfrey Dav Trust Ltd., one of the lar est Ford dealers in Britai Besides appealing to fa ilies, the Mondeo, which h enjoyed positive early r views for safety and ha dling, should give Ford ne leverage in the company-c market, which accounts f some 60% of British sales.

Yet the Mondeo, sche uled to go on sale in Marc may travel a bumpy pat The timing is awkwar what with Europe's econ mies in the dumps. Beyor that, the Mondeo faces o against an array of Jap nese contenders that a made in Britain such as Ni san's Primera, Honda's A cord, and Toyota's Carin On the Continent, it co fronts new models or facelifts from GM Renault, VW, and Peugeot. "This se ment of the market is getting ver crowded," warns one rival. "Ford nee a real winner to get back in the race."

A DEAL DIES. Meanwhile, Ford is revvin up other new entries for the Europea market, including such U.S.-made in ports as the sexy new Probe sports ca and the four-wheel-drive Explorer. B midyear, Nissan will be turning out i Europe a four-wheel-drive vehicle fo Ford called the Maverick. Within tw years, Ford and joint-venture partne VW, will enter the minivan market.

For all of Ford's ne enthusiasm for blanke ing the market, one er ticing deal with Mazd Motor Corp., in whic Ford holds a 25% stake appears to have falle through. Insiders sa that two-year-old talk aimed at producing small car in Europe b the mid-'90s are virtual ly dead. They foundere



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over such issues as Mazda's financial woes and Ford's fear that the new product would threaten the Escort.

Across Europe, Ford is belatedly displaying a hard-nosed approach to costs. Once it was the very model of a "European" corporation, setting up sales and operating units across Europe. But the companies grew too fast, say insiders, giving rise to big bureaucracies and rivalries among them. In time, some executives were even refusing to speak to others across country borders. The 10,000 job cuts announced last month are part of a sweeping restructuring that strips managerial layers in engineering and manufacturing. It also merges several overlapping research centers in Britain and Germany.

What's more, Ford will contract out ever greater amounts of component manufacturing and even spin off its in-house training program. The restructuring may also be the first step toward moving Ford's European headquarters out of Britain, a move designed to break apart entrenched cultures.

The shakeup is the handiwork of a handful of recent arrivals, including Fike, who has been on the board 18 months. The actions were strongly endorsed by the new chairman, Jacques A. Nasser, who took over officially on Jan. 1. The Lebanese-born executive, personally appointed by Ford Chairman Harold A. Poling, is likely to prove a stickler on costs. He moves over from Australia, where he worked a major overhaul of Ford operations. A finance man, Nasser, 44, also brings an eclectic set of interests, from old cars to 1960s rock 'n' roll.

But will it all work? A lot depends on whether the staggering $15 billion that Ford of Europe has spent over the past five years yields a few winning model Already, productivity at Ford's Cont nental Europe plants is on a par with th Japanese factories in Britain, and its la gard British operations are makin steady progress. Meanwhile, Ford' three-year-old "southern strategy, aimed at using the Fiesta and Escort t gain market share in Italy, Spain, an Portugal ahead of the Japanese, ha scored big gains.

Yet without a turnaround, more cut loom. One of the two major Britis plants could be shuttered. Unless profit pick up within two years, new-produc spending may come under the knife. Eu rope once was a major source of profit for Ford. Now, its executives see ready to do what's necessary to ge Ford Europe roaring ahead again.

By Richard A. Melcher in London, wit John Templeman in Bonn

MEET FORD'S BRAVE NEW 'WORLD CAR'

Ford Motor Co.'s concept seemed great at the time—building a new "world car" that would satisfy every taste from Detroit to Düsseldorf. But the result, the Escort, proved to be one of the grandest corporate foul-ups ever. To make the Escort, Ford set out to pool design, engineering, and manufacturing from both North America and Europe. But rivalries were so intense that Ford ended up producing two very distinct models. When they finally hit the road in 1981, the North American and European versions shared nothing other than one part—a water-pump seal the size of a thumbnail.

THE COMPANY IS GAMBLING $6 BILLION ON THE SUCCESS OF THE MONDEO

Hoping history won't repeat itself, Ford now is betting $6 billion on the Mondeo, an even more ambitious world car. The front-wheel-drive Mondeo, priced at around $18,000 in Europe, is designed to replace the aging, 10-year-old Sierra line in Europe and next year the Tempo/Topaz line in the U. S.

Ford executives figure that the convergence of emission standards, safety regulations, and, above all, consumer tastes in the Old and New Worlds make a single car worthwhile. If they're right, the Mondeo program will set a benchmark for future joint projects in the late 1990s. Regardless, the experience will have some spin-off benefits for other models, such as developing worldwide supplier relationships and teaching cost-control.

PAINFUL MEMORIES. Unlike the 1981 Escort, the U. S. and European versions of the Mondeo will have 75% common parts, although the U. S. version will be slightly longer and have more chrome. While initial costs are higher, they are more than offset by the savings from engineering one, rather than two, cars.

Of course, the program had to overcome many obstacles. Five Ford design studios from the U. S. and Europe had to compromise on design proposals that ranged from a soft and rounded body to a sharply angular one. Although Ford's European operations maintained the project leadership, key responsibilities were divided. The U. S., for example, took over automatic transmissions, with Europe handling manual. And with Escort memories so painful, senior executives from Chairman Harold A. Poling downward took a keen interest in the Mondeo's development. In fact, Poling, along with then-President Philip E. Benton Jr., selected the Mondeo name from a short list of half a dozen. And one insider says that Poling took the advice of consultant and former ace racing-car driver Jackie Stewart and ordered changes in the car's suspension.

Even so, Ford execs admit, the final product isn't a dramatic head-turner. Ford is counting on such features as standard airbags and side-impact bars, plus good fuel efficiency, to produce a winner. Early critical response has been warm. "It's very tidy and handsome and probably the sort of car Ford needs to ward off the Japanese," says Gavin Green, editor-in-chief of *Car Magazine*. If so, Ford's world car will be more than just a grand concept.

By Richard A. Melcher in London

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EDITED BY STANLEY REI

NOW, THE HARDLINERS ARE ZEROING IN ON YELTSIN'S FOREIGN POLICY

All smiles, President Bush and Russian President Boris Yeltsin clinked glasses in the Kremlin on Jan. 3 to toast signing the momentous START II treaty that will sharply reduce strategic nuclear weapons. But the euphoria will probably wear off quickly. Yeltsin's opponents in the Parliament aim to see to that. They are now turning their attention to foreign policy after forcing him to replace his reformist Prime Minister, Yegor T. Gaidar, with state industrialist Viktor S. Chernomyrdin in December. The loose coalition of Communist hardliners, nationalists, and dissatisfied industrialists is pushing for the ouster of Foreign Minister Andrei V. Kozyrev. They also want Yeltsin to adopt a less pro-Western, more nationalist Russian policy.

The struggle could further weaken Yeltsin and lead to strains with the incoming Clinton Adminstration on issues ranging from Yugoslavia to Russian arms sales. The U. S. is already deeply concerned that Yeltsin has been forced to backslide on the economic-reform front. Chernomyrdin recently set off alarms after announcing that he would slap Soviet-style price controls back on milk, bread, meat, and other essentials.

U.S. TODAY? Although the hardliners are pushing for blatantly anti-American policies, including barriers on American investment and a return to cold war military policies, Yeltsin remains committed to cooperation with the U. S. But Yeltsin is also saying that Russia's foreign policy must be revamped to better advance the country's interests in the former Soviet republics, Europe, and such traditional areas of interest as Cuba, China, and Iran. Says Andrei Kortunov, a foreign policy analyst at Moscow's Institute of USA & Canada: "The new rhetoric will emphasize Russia as a great power, with national pride and national interests."

Already, speculation is rife that Yeltsin will sacrifice the pro-American Kozyrev in a deal to get the rebellious Russian Parliament to ratify the START II treaty. The opposition ha long criticized Kozyrev for toadying to the U. S. on arm control, Yugoslavia, and other issues.

A leading candidate to replace Kozyrev is Vladimir Luki Russia's ambassador in Washington. While unlikely to r verse U. S.-Russian relations sharply, Lukin would likely pus a firmer, Russia-first policy. A year ago, for example, he adv cated opening up the whole question of sovereignty over th Crimea—now part of Ukraine—when Ukraine claimed contr over the Black Sea fleet. He might also us economic sanctions or even the threat force to protect the 25 million Russian res dents of the Baltics and other former Sovie republics, many of whom face harassment.

RUSSIAN SILO: BIG CUTS

SERBIAN CLASH. Tensions in the Baltics coul sour U. S.-Russian relations. Plans of Russia military enterprises to step up arms sales t such countries as China, India, and Ira could also prove a major irritant.

Yeltsin may also find himself caught in wringer over Yugoslavia between his ow hardliners, who side with the rampagin Serbs, and Clinton, who wants to move ag gressively to stop the carnage. "If Yeltsi supports military interference in Serbia, i will mean his departure," warns parliamen tarian Sergei Baburin. U. S. Senator Richar G. Lugar (R-Ind.), who favors sending U. S ground troops to intervene in the conflict, says he is "ver worried" about the hardline pressure on Yeltsin.

For Yeltsin, foreign policy is becoming as tough a balancin act as trying to reform the economy. It's clear that he doesn' want to sacrifice the gains he has made in U. S.-Russian rela tions. But Yeltsin knows he will face further attacks at home in the coming months. That's a big reason why Yeltsin—as wel as Bush—rushed to sign the arms-control treaty now.

By Rose Brady in Moscow, with Brian Bremner i Washington

GLOBAL WRAPUP

AUTOS

One of the most successful international business partnerships is undergoing review, say sources close to Ford Motor Co. and Mazda Motor Corp. In the wake of Mazda's financial problems and with plans for a joint-venture car in Europe near collapse (page 44), Ford is weighing its 25% stake in the Japanese carmaker. One source close to the deliberations says Ford may seek majority ownership to take fuller advantage of its manufacturing and marketing strengths and Mazda's engineering and product strengths. That would also ensure a stronger push behind Ford products in the Far East. Mazda executives have so far resisted ceding further ownership, but Ford may be calculating that Mazda is now vulnerable.

JAPAN

America's newest export to Japan could be shareholder activism. The California Public Employees' Retirement System, which owns $2 billion worth of Japanese shares, has asked Nomura Securities Co. and Daiwa Securities Co. to appoint outside directors to their boards and may do the same with other companies whose shares it holds. CalPERS says it wants to protect itself in the wake of Japan's securities scandals. Nomura says it "politely declined" their request, but at CalPERS' bidding it did appoint an outsider to the board of an unlisted fund-management subsidiary. Outside directors are rarely welcomed in Japan—as Boone Pickens learned.

ITALY

Just as old barriers fall in the European Community, new ones appear. To protect troubled Fiat, Italy has decided to slap strict controls on imports of Japanese cars—rather than apply EC regulations aimed at allowing a gradual rise. The Italians want no more than last year's minuscule 56,000 vehicles to be imported in 1993. France is expected to enact similar measures.

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STRATEGIES

DOES SNAPPLE HAVE THE JUICE TO GO NATIONAL?

The 'New Age' upstart faces heavy going

Although few outside the Northeast and California had ever heard of Snapple Beverage Corp.'s flavored teas and seltzers, Wall Street responded as if Snapple were a national addiction when its shares began trading in December. By the end of the first day of trading on Dec. 15, Snapple's stock had risen 45% above the offering price of $20. Almost overnight, Snapple's market value was nearly $1.2 billion—more than that of such corporate heavy-hitters as National Semiconductor Corp. and Teledyne Inc.

A certain amount of enthusiasm is understandable. Snapple is at the forefront of hip "New Age" beverages—the non-cola, nonalcoholic drinks that are growing at a brisk 10% annual clip at a time when sales of traditional pops are flat. Investors are betting that Snapple can duplicate its regional success as it pushes nationwide. The Valley Stream (N.Y.) company has doubled its sales every year since 1988, to an estimated $205 million in 1992. Meanwhile, profits have soared, from $1.8 million in 1991 to an estimated $15 million in 1992.

'NOT THERE YET.' Despite the warm reception on Wall Street, it may be a while before investors see Snapple join the behemoths of the beverage industry. The brand still has little national recognition. What's more, Snapple faces some awesome competition this year. Seizing on the promise of New Age drinks, Coca-Cola, PepsiCo, and A&W are rolling out national challenges to Snapple's iced tea and New Age products this spring. Says James Sanna, A&W Brands Inc.'s vice-president for business development: "The people extremely hot on Snapple right now do not understand the industry well."

Some industry analysts are already wondering whether Snapple, with no production facilities of its own and only 87 employees, has the wherewithal to battle such heavyweights. "Snapple is not there yet," says Tom Pirko, a beverage-industry consultant at Bevmark Inc. "They have to put more money in the company." Although Snapple raised $88 million from the initial public offering, which represents 13% of outstanding shares, it's devoting a scant $1.5 million for corporate operations.

GREENBERG AND MARSH: UP AGAINST HUGE AD BUDGETS

Much of the rest is going to pay off most of Snapple's $79.8 million debt, which was incurred when Thomas H. Lee Co., a Boston-based leveraged buyout firm, paid $130.2 million for 61% of the company last March. An additional $12.7 million from the IPO is going as bonuses to Snapple's founders—Chief Executive Leonard Marsh, 60, Chairman Hyman Golden, 69, and Chief Operating Officer Arnold Greenberg, 60—who still own 25.[illegible]% of the company.

Snapple executives declined to [illegible] interviewed for this article, citing [illegible] interpretation of securities law th[illegible] would prohibit public statements [illegible] 25 days after an IPO. A Securities [illegible] Exchange Commission spokesman sa[illegible] that no SEC regulation imposes such [illegible] restriction.

Whatever the challenges ahea[illegible] Snapple shouldn't be counted out [illegible] especially considering how far [illegible] has come in the 20 years since [illegible] was founded. Marsh, a form[illegible] window washer, and his childho[illegible] buddies from Brooklyn's har[illegible] scrabble Brownsville secti[illegible] founded Snapple's corporate pr[illegible] decessor in 1972, with the idea [illegible] selling all-natural juice drinks [illegible] health-food stores. The trio he[illegible] onto their day jobs until 1987, [illegible] they painstakingly built easte[illegible] urban strongholds in New Yor[illegible] Boston, and Washington by i[illegible] filtrating convenience store[illegible] and delis, where upscale pr[illegible] fessionals were willing to pa[illegible] $1 and up for a 16-ounce bo[illegible] tle of Snapple, roughly do[illegible] ble the price of a can of col[illegible]

CROWDED SHELVES. The af[illegible] luent and health-conscio[illegible] remain Snapple's core co[illegible] stituency, and with some ju[illegible] tification. In 1988, Snappl[illegible] pioneered the "hot-fill" bottling of pr[illegible] servative-free liquid tea and got a fou[illegible] year competitive jump in what has b[illegible] come a fast-growing $600 million ice[illegible] tea market. Until then, liquid tea had been processed cold, like soda, and needed off[illegible] tasting preserva[illegible] tives to give i[illegible] shelf life. Snappl[illegible] has strengthene[illegible] the wholesome imag[illegible] since then by expand[illegible] ing its line of frui[illegible] juices, seltzers, an[illegible] natural sodas tha[illegible] contain no artificia[illegible] flavors or colors.

Taking that lin[illegible] nationwide is an[illegible] other matter. Snap[illegible] ple's first priority [illegible] is getting shel[illegible] space. As of Octo[illegible] ber, Snapple was in [illegible] just 51 of the 278

ajor supermarket chains. But it faces a ng haul and the payment of some hefty es before it can claim a significant super- arket presence. And Snapple has just arely broken into the lucrative vending- achine market. The big, traditional ottlers that supply the vending com- anies are closely tied to the major play- rs, such as Coke and Pepsi, and are ath to give Snapple an inch. "Snapple as to convince bottlers that their prod- ct is so hot that they are missing an asy sale," says consultant Pirko.

Unfortunately, Snapple's distribution roblems don't end there. In its rush to o national, the company has hit some ags. Snapple paid out $5.4 million in e last two years to cancel the con- acts of distributors it decided it could eplace with better ones. And it's now ghting off two lawsuits over distribu- on rights in New York and Arizona.

Still, much of its distribution network emains green. In August, for example, aree Houston Oilers football players ere handed a choice Snapple distrib- torship for Houston, Dallas, and Fort Vorth. Although the trio of offensive nemen has no industry experience, "we hought the product sounded good," says Doug Dawson, an Oilers' guard and ex- cutive vice-president of the newly ormed Trinity Beverage Co. How's busi- ess? "We've done O. K.," sighs Daw- on. "There are 10,000 possible accounts n Houston. We're in 400 of them."

ALTRY SUM. Growing pains aside, Snap- le has to contend with fearsome com- etitive assaults this year. Year-old part- erships linking Pepsi with Lipton, Coke vith Nestlé, and A&W with Tetley will hreaten Snapple's dominance of iced ea countrywide by this spring. And Crystal Pepsi, PepsiCo Inc.'s New Age oda, will be available nationally by the nd of January. Not to be outdone, Coca- Cola Co. is test-marketing Nordic Mist, a lavored sparkling water.

Snapple may have the advantage of eing first, but it is dwarfed by the narketing, advertising, and distribution rowess of its rivals. Snapple recently ired a new ad agency and signed up ennis ace Jennifer Capriati as pitch- voman. But the company says it will pend only $15 million on advertising in 993, paltry next to the $40 million that Pepsi is expected to spend this year ust to launch Crystal Pepsi.

In the face of this sort of onslaught, Snapple may not remain such a hot roperty for long. That would certainly adden its founders. But now that they ave pocketed some $150 million from lividends, bonuses, and stock sales, the ormer window washers can hardly be oo disappointed. It remains to be seen vhether thousands of investors will hare their good fortune.

By Elizabeth Lesly in New York

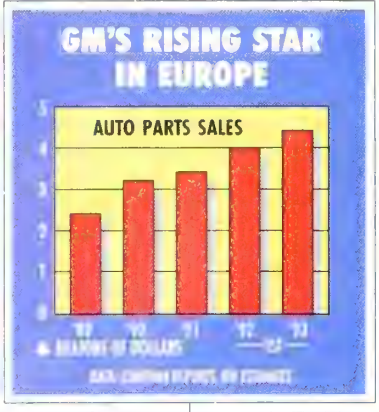
EUROPEAN PARTS SALES ROSE TO $4 BILLION IN 1992, WITH 41% OF THAT TO OTHER MAKERS

FOR GM, THE WORD FROM EUROPE IS 'PARTS'

Its components plants there are profiting by selling to outsiders

In the high-tech world of automotive components, it's hard to imagine a product more humdrum than car batteries. Yet in Sarreguemines, France, batteries are helping to generate tidy profits for General Motors Corp. Its factory there has become one of Europe's most efficient parts plants, supplying not only GM's Opel and Vauxhall units but also France's Peugeot and Honda's new British transplant.

True, car-battery profits may not mean much for GM's shaky bottom line. But the message behind them could. All over Europe, GM is discovering that its in-house parts plants, which had grown fat and lazy supplying GM, can become efficient profit centers. GM's European parts sales rose an estimated 18% in 1992, to $4 billion, with outsiders accounting for 41% of the total (chart).



EYE-CATCHING. Although the company doesn't break out earnings for its parts business, James F. Ault, president of the Paris-based parts operation, says profits are growing. And the results look even more impressive compared to those of GM's European car unit. Analyst Scott Merlis of Morgan Stanley & Co. estimates that the company's profits fell 18% in 1992, to $1.4 billion. In auto parts, GM "has become a real competitor," concedes Jacques Monnet, marketing director for heating and air conditioning at French parts maker Valeo.

Those results have already caught the eyes of executives at the parts division's troubled parent back home. Many of GM's U. S. components plants, which supply 57% of the carmaker's needs, are still just as complacent as their European counterparts once were. Converting them into free-market competitors and boosting their outside business could go a long way to helping GM rebuild its profits. Last July, GM hired consultant A.T. Kearney Inc., which helped recast its European parts business, to study similar changes in the U. S. And it has put worldwide purchasing in the hands of its former European buying chief, J. Ignacio Lopez de Arriortua.

GM decided to transform its parts operations into a profit center in the 1980s, when it became apparent that Europeans were starting to yearn for

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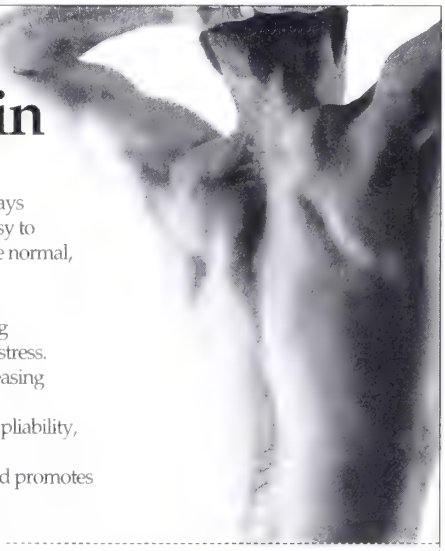

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options, such as air conditioning, that were fairly common in the U. S. In 199. after many factory acquisitions, GM reorganized its 48 plants, which made everything from wiper blades to wires, into a single division, Automotive Components Group Europe. Next came improved efficiency. With the help of Kearney, Lopez began to squeeze costs out of the component group. One of the most effective methods was to force ACGE to compete for GM business like any other supplier. Lopez set tough price goals and held workshops in factories to show supervisors how to meet them through such methods as just-in-time inventory controls.

That same year, GM also launched a common marketing effort for its far-flung European parts operations. Previously, each plant sold its own products individually, primarily in its home country. Now salesmen market a range of products across Europe.

GM has also spent $1.2 billion over the past five years to modernize facilities. Many plants, including the French battery factory, were linked to a computer-aided design network to speed delivery to customers. And to tailor its products for non-GM customers, ACGE recently opened engineering centers in Luxembourg and Paris.

SOARING MARKET. Going forward, Au sees even more opportunities for the auto parts operation. Annual car sales in Western Europe are expected to rea 16 million by 2000, compared with 1 million in 1992. And more of the new autos will boast the U. S.-style gadgetry that GM knows how to turn out. For example, just half of Europe's cars have power steering now, but that figure will rise to 80% by mid-decade, says Au All told, GM sees Western Europe's components market nearly doubling, to $1 billion, by 2000.

And for once, Japanese expansion may hold a silver lining for GM. When Japanese carmakers built U. S. plants their Japanese parts suppliers followed along. But now, as the Japanese open European auto plants, they're buying parts from local companies, which are more efficient than the old U. S. parts makers were. Political concerns are also prompting Britain's Japanese transplants to improve their image by buying locally. ACGE hasn't quite cracked the Japanese market yet: Sales to the transplants are a modest $50 million.

Still, GM is determined to remain one of the most profitable parts suppliers in Europe. And if the company's U. S. parts operations ever achieve similar results, something as humble as car batteries could end up providing some real spark to the bottom line back home.

By Stewart Toy in Paris, with David Woodruff in Detroit

Commentary/by Karen Pennar

BEWARE OF ACCOUNTING MAGIC TRICKS, MR. CLINTON

For Bill Clinton, it's going to be a neat trick: Cut the deficit and step up federal spending on infrastructure at the same time. But there just might be a way to accomplish that, say some economists who have dusted off an old idea. The federal government, they say, should adopt a capital budget separate from an operating budget, an accounting method not unlike that used by businesses, states, and local governments. In this manner, worthwhile long-term investments can receive the financing they require and deserve, while spending for day-to-day activities can be brought into line. Presto! Two birds are killed with one stone.

Trouble is, accounting fixes can't work that kind of magic. Whatever the two new budgets might amount to separately, they still add up to rivers of red ink—and it will take a monumental budget-cutting effort to change that reality. What's more, there's a danger that adopting a capital budget might spur still more deficit spending. Democratic budgeteers should look before they leap.

Those overseeing the budget are likely to do that—both Leon E. Panetta and Alice M. Rivlin, designated director and deputy director, respectively, of the Office of Management & Budget, are known as deficit hawks. They're unlikely to favor any accounting experiments. But Clinton and his advisers want to at least showcase a capital budget as an alternative budget presentation. Problems could develop, though, if it were used as the principal budget-making tool.

MORE RED INK. Although different economists have different approaches, here's how a capital budget would work: First, expenditures would be categorized as to purpose. Government payrolls, for instance, would count as current or operating expenditures, to be paid out of current revenues. Buildings and bridges would count as capital expenditures. Since capital investments should boost productivity, borrowing to finance them is acceptable. For accounting purposes, the federal government should be allowed to depreciate this investment over time instead of expensing such spending immediately, as it is now required to do.

The notion of a capital budget is intellectually appealing. After all, there's clearly a qualitative difference between expenditures on, say, office supplies and long-term investments in research facilities. But problems with applying this analysis to the federal government would develop from the outset. Practically speaking, it will be impossible to fund current expenditures out of current revenues, unless so many programs are shifted onto the capital budget as to render the designation "capital investment" meaningless.

Deficit-cutting isn't made any easier, either. Northwestern University economist Robert Eisner, a longtime advocate of capital budgeting, says the narrowly defined deficit shrinks by a mere $500 million when a capital budget is employed and depreciation is included. The General Accounting Office, basing its calculations on the more familiar unified budget analysis, figured that in fiscal 1993, the capital budget would have been $26 billion in the red after depreciation is charged, and the operating budget $311 billion in the red, vs. a unified budget deficit of $337 billion.

Then, too, there are bound to be definitional problems—especially as politicians try to protect pet programs by designating them as long-term investments. Is health care for the young an investment? Almost certainly. Then how about health care for the elderly? Spending on tanks? Eisner says defense hardware should be counted as capital. "You could go through every single thing the government does," says Henry J. Aaron, a Brookings Institution economist, "and with only a little imagination, extol the virtues of a particular program as something that merits designation in the capital budget." In state and local budgets today, capital investments are very narrowly defined, in part because there have been past abuses. New York City got into financial straits in the mid-1970s after borrowing heavily to finance current expenditures that were surreptitiously placed on the capital budget.

DUBIOUS VALUE. A capital budget—provided it is honestly and accurately measured—clearly has some informational value. It would serve to highlight how the government spends the citizenry's resources. Right now, the analysis demonstrates that the federal stock of public capital is barely being maintained. Still, that information doesn't tell people what is a worthwhile investment and what isn't—and there's a risk that a capital budget just might confer on new spending a badge of approval that it doesn't deserve.

Calling something by another name doesn't alter its economic effect. Cutting the deficit is laudable. Investing for the future is worthwhile. The Clinton Administration should certainly strive to do both, and do them wisely—without gimmicks, shortcuts, or new accounting techniques. For the federal government, the capital budget is an idea whose time should never come.

Pennar is a BUSINESS WEEK senior writer specializing in economic topics.

WHAT A CAPITAL BUDGET SHOWS

ALL FIGURES IN BILLIONS OF DOLLARS	1987	1990	1991
DEFICIT* BASED ON NATIONAL INCOME AND PRODUCT ACCOUNTS	-151.8	-165.3	-201.6
GROSS INVESTMENT	76.3	72.9	56.4
− DEPRECIATION	−46.3	− 53.3	− 55.9
+ NET INVESTMENT**	30.0	19.6	0.5
DEFICIT IN OPERATING BUDGET AFTER SHIFT TO CAPITAL BUDGET	-121.8	-145.7	-201.1

*Excludes financial transactions such as loans, loan guarantees, and deposit insurance outlays **Fixed investment only. Excludes human capital investment

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DV M57 486SLC2	486SLC2 50/25 MHz	212MB	8MB expandable to 16MB	Yes
M77 486	486 SX 33 MHz	212MB	8MB expandable to 32MB	Yes
M77 486DX2	486DX2 66/33 MHz	212MB	8MB expandable to 32MB	Yes

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ADVERTISING

DRUG ADS: A PRESCRIPTION FOR CONTROVERSY

Outdated FDA rules have both manufacturers and activists riled

Consumers accustomed to the usual barrage of ads are getting used to a new species of message: the prescription-drug pitch. Just pick up a women's magazine and see Ortho Pharmaceutical hawking its birth-control pill. And there's Wyeth-Ayerst Laboratories, telling women about its new Norplant long-lasting contraceptive. Or flip through periodicals as diverse as *The New Yorker* and *Popular Mechanics*, where you'll find Merck & Co. reminding men to ask their doctors about prostate disease. Television blares out its stream of messages about patches that help a smoker quit. All told, drugmakers spend some $200 million a year to advertise about a dozen prescription products.

It's quite a switch for the industry, which historically marketed to doctors only. True, a few prescription drug ads were aimed at consumers in the 1980s. But now, as low-price generics and cost-conscious health insurers threaten their margins, drugmakers are stressing more than ever the value of recruiting the patient to ask the doctor for a pricey drug by name. "The old trickle-down method, where you waited for salesmen to tell doctors and eventually doctors would tell patients, isn't good enough anymore," says Joseph L. Davis, managing director of ad agency Medicus Consumer/DMB&B. And pitching to consumers works: It helped turn the nicotine patch into an $800 million category.

SMALL PRINT. What's exasperating is the tortuous way these ads are shaped to meet Food & Drug Administration criteria (table). Those guidelines, formulated to govern advertising to physicians, are now jury-rigged to apply to the new wave of consumer ads. "The rules we're operating under now were made in a different era," complains John F. Kamp, senior vice-president of the American Association of Advertising Agencies. Consumer advocates are fuming too: "The regulators are flying by the seat of their pants, and they're not doing a good job," says Dr. Sidney M. Wolfe, director of Public Citizen's Health Research Group and a frequent FDA critic.

The chief complaint of advertisers and advocates alike involves the "brief summary," a precise list of a drug's risks, benefits, and uses. FDA rules require that drug ads in physicians' professional journals include the summary if the ads mention both the drug and a ailment involved. So the FDA demands the same for consumer ads.

To a lay reader, this summary seems anything but brief. It's typically a full page, in tiny type, of often unintelligible medicalese. Drugmakers say the brief summary requirement hobbles their efforts to reach consumers by adding unnecessarily to marketing costs. Activists such as Wolfe, also dislike the brief summary, but for a different reason: They say it could let a drugmaker bury vital information about its product's danger in text no one reads.

FDA officials say they're monitoring ads to make sure important data aren't hidden. In the absence of specific rules for consumer ads, the FDA says it must apply existing ones governing ads to doctors. Guidelines to clarify the rules are on the drawing board, but plans to issue them are on hold. Admits one FDA staffer: "Anyone you talk to in the agency will say the process is cumbersome."

Although it does not require them to do so, the FDA encourages drugmakers to show the agency texts of proposed ads. But even a green light from the FDA is no guarantee that it's safe to proceed. After running the text of its Nicoderm print and TV ads by the FDA late in 1991, for example, Marion Merrell Dow Inc. still wound up getting several FDA requests for changes in 1992, when the campaign already was running.

HIDDEN AGENDA? First, the FDA insisted the ads stress the need for patch-users to join behavior-modification programs to quit smoking. Then it objected to the use of the word "patch" alone in ads instead of the brand name. Each time, Marion had to recast not only its ads but also tons of support literature that its salespeople were distributing. "It's a wasteful practice," contends Marion Chief Operating Officer David B. Sharrock. For its part, the FDA complains it did not get to see final layouts for ads and all the accompanying literature, so the regulators had to keep going back.

This baffling patchwork of rules also results in such campaigns as Merck's effort for Proscar, a medicine to shrink swollen prostates. Nowhere in its con-

THE PILL AND THE PATCH: ORTHO PHARMACEUTICAL'S AD GOT FDA APPROVAL BY LISTING ALL THE PROS AND CONS, BUT MARION MERRELL DOW'S HAD TO BE CHANGED

ADVERTISING THE FDA WAY

FDA rules for advertising prescription drugs to consumers

THE BRIEF SUMMARY THAT ISN'T. Naming the drug and its use requires appending the "brief summary"—a long list of product data

HELP-SEEKING. Ads that educate about a disease don't have to include the "brief summary"—provided they do not pitch a particular product by name and use

FAIRNESS AND BALANCE. When a drug and its use are named, the ad copy itself must clearly indicate potential hazards as well as limits

DATA: FOOD & DRUG ADMINISTRATION, BW

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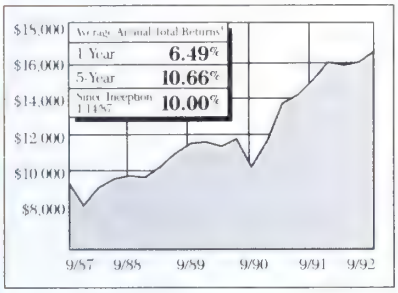

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sumer ads does Merck name the new drug or even say a new medicine is available. Instead, it just describes prostate disease, states that "several options" for treatment now exist, and urges men to see their doctors.

Because the ads omit the product name, Merck doesn't have to describe the drug or include a brief summary. If it did, Merck's consumer ads would have to state what Proscar ads in medical journals say: that the drug fails to ease discomforting symptoms for most men, that a fraction of patients suffer temporary impotence, and that men might need to take Proscar daily for six months before they see any results.

INDUSTRY MODEL. A Merck spokeswoman says the company doesn't name the drug in its ads because it first wants to educate the public about a widely misunderstood ailment that is in fact treatable. She also notes an overwhelmingly positive response from doctors and consumers to the ads. And FDA drug-advertising overseer Dr. Cheryl F. Graham thinks the ads are a good public service.

But not everyone is thrilled. Just ask Dr. Edwin P. Maynard, past president of the American College of Physicians and former chairman of its ethics committee. "They are taking the route of advertising directly to this vulnerable population of older men, when the efficacy of the drug isn't all that great," he says. Merck counters that Proscar is a big advance with proven clinical benefits.

There's no consensus about how to improve the regulation of drugmakers' ads. Some critics say the brief summaries should be shortened or eliminated. Others argue that consumers should get more information, such as clearer caveats in the text of an ad. Activists want the FDA to ban direct-to-consumer ads altogether until tighter standards are set. Meanwhile, the FDA is swamped with high-priority tasks, such as speeding up the approval of drugs, which it ranks ahead of casting new rules for consumer ads.

Amid all the cacophony, some well-balanced ads do get produced. Johnson & Johnson Inc.'s Ortho unit, for instance, worked with the FDA for much of a year to develop a print ad for birth-control pills that both industry officials and regulators cite as a model. The ad lists in the main copy such cons as the risk of smokers on the pill suffering heart attacks, along with such pros as the pill's potential for protecting against ovarian cancer. "Consumers very much want information," says Ortho marketing vice-president Robert P. O'Neil. "They're not looking for slick advertising." That's a healthy lesson for all drug advertisers.

By Joseph Weber in Philadelphia and John Carey in Washington

UNDER ATTACK: TESTIMONY FOR HIRE

At issue is expert witnesses' use of untested scientific theories

Shanna H. Swan, a statistician from Berkeley, Calif., has caused a lot of executives sleepless nights. Over the past 14 years, the 56-year-old has taken the witness stand in about 50 cases against the makers of some of medicine's most notorious drugs and medical devices, including the antimiscarriage drug DES. "I'm not out to do in drug companies," she says. "I'm interested in finding out what the truth is."

Now, she finds herself in the midst of a courtroom drama playing out before the Supreme Court. Swan and experts such as her are at the heart of a legal war between Corporate America and plaintiffs' lawyers over the proper role of science in the courtroom. In the case, she and seven other experts were prepared to testify that Bendectin, an antinausea drug taken by pregnant women, causes birth defects. But the parents of Jason Daubert and Eric Schuller—both born with limb defects—lost their suit against Bendectin's maker, Merrell Dow Pharmaceuticals. A federal appeals court didn't buy their experts' studies because they weren't "generally accepted" in the scientific community. The high court will now rule on when such testimony should be allowed in the nation's courtrooms.

The stakes are high—for victims and companies as well as for expert witnesses. Innovative science has spawned scores of injury suits and helped propel product-liability litigation in the U. S. T cases may ensure that justice is do But the cost of fighting them—and ev of vindication—can be staggering.

Plaintiffs argue that any relevant e idence from a qualified witness should allowed. "All these cases start out fr the mavericks," says Aaron M. Levine Washington plaintiffs' attorney. Com nies, though, want to open the door o for accepted theories. The fight has t en on political dimensions as lawy bashing conservatives charge liber with undermining the competitiven of U. S. companies with frivolous suit

One reason that untested ideas a aired in court, such critics charge,

STATISTICIAN SWAN: THE SUPREME COURT WILL SOON DECIDE WHEN TESTIMONY FROM SUCH EXPERTS IS ADMISSIBLE

ıe lucrative expert-witness industry. 'irtually anyone with a degree can be- ɔme an expert witness, no matter how alid his or her theories. Critics say se- ious scientists prefer the lab to court.

But lawyers who hire Swan, the chief f reproductive epidemiology at the Cal- ornia Health Services Dept., value her kill at simplifying complex science for ıe jury. Swan considers the legal jobs art of her public-health work but says ıe never testifies in areas that she is esearching for the state. Swan doesn't iew herself as a crusader and, in fact, as testified for companies.

RASTIC ACTION. She was an unknown esearcher when lawyer Robert S. chlifkin first asked her to testify in 979. He wanted a medical statistician to olster his case against E. R. Squibb & ons Inc., a DES maker. He asked Swan ecause of her research on contracep- ves for Kaiser Permanente Medical enter in Walnut Creek, Calif. Although ıe hadn't studied DES, she accepted. oon, Swan advertised her services in a ıw publication. Swan says she was re- ponding to a solicitation but soon can- eled the ad after it got no response.

When Barry J. Nace, the Dauberts' ttorney, lined up Swan and the others) testify against Merrell Dow, he faced an uphill battle. Most scientific literature concludes that Bendectin does not cause birth defects. Despite the studies, and the Food & Drug Administration's approval of the drug in 1956, lawsuits forced Merrell Dow to pull the product 10 years ago. The Kansas City (Mo.) company took that drastic action even though it has never paid damages to any of the 2,000 or so people who have sued it over the drug.

Swan's credentials impressed Nace. A PhD statistician who trained at the University of California at Berkeley, she's a part-time lecturer at its School of Public Health in addition to her state job. She charges $175 an hour for consulting and $275 an hour for testifying. Such fees account for 20% of her income, but less than 10% of her time.

In the Supreme Court case, Swan never testified because the trial judge dismissed the suit. But other Bendectin suits display her methods. Swan's strategy is to pick apart a study by the Atlanta-based Centers for Disease Control, which found little evidence that the drug causes birth defects. Her conclusions—unlike most of the 30 other pro-Bendectin studies she has critiqued—have never been published as a full article.

Swan's main tactic is to try to poke holes in the CDC's methodology for measuring the risk of birth defects. She argues that the agency undercounted the number of mothers exposed to Bendectin during the first trimester of pregnancy. To boost the exposed group, Swan includes in her analysis women who took different drugs, such as Vicks Formula 44 and Nyquil, that contained one of Bendectin's active ingredients.

Her results showed that children of mothers who had taken Bendectin's active ingredients in the first trimester have, on average, a 20% greater risk of birth defects and an 80% to 90% greater risk of limb reductions, in particular, than women who didn't take it. But those conclusions contradict most other studies. Even some of the plaintiffs' lawyers have their doubts. Defense lawyers attack Swan directly. "She skews the analysis to fit her testimony," charges Robert L. Dickson, Merrell Dow's attorney. "I think that's charlatanism."

SKEWED SCIENCE? He charged in an earlier Bendectin case that Swan fails to apply her methods evenly. For instance, she didn't scrutinize DES studies showing the drug is a carcinogen as critically as she did Bendectin studies. Swan says her methods vary depending on the evidence linking the drug and the disease.

Plaintiffs' experts such as Swan aren't the only ones who betray biases, though. Lawyers who hire them say mainstream science is funded by corporations and is just as skewed. In one instance, Nace found a 1982 Merrell Dow memo showing a $500,000 payment to Dr. A. G. Hendrickx, a birth-defects expert, to research Bendectin for the defense. Hendrickx says the research—which showed that the drug did not cause birth defects in monkeys—could not be manipulated. Just as Swan picked apart Bendectin studies to bolster her conclusions, defense experts dissected unfavorable DES studies (table).

As technology advances, judges and juries, untrained in science, are struggling to understand issues that form the foundations of many legal decisions. They would get needed help if the Supreme Court sets a threshold for admitting scientific evidence. Still, a more lasting solution may lie beyond the courts. If victims are compensated from sources besides lawsuits—such as a special fund—courts wouldn't be as tempted to create bad law by accepting controversial science.

By Catherine Yang in Washington

EXPERTS BATTLE OVER SCIENCE

Product	Plaintiffs' experts	Defendants' experts
BENDECTIN	A combination of cell-development, animal, chemical, and epidemiological studies shows a link between Bendectin and limb defects	Prevailing scientific literature does not show any higher risk of birth defects for children whose mothers take Bendectin in the first trimester than for children whose mothers don't take the drug at all
DES	Mainstream scientific studies comparing women whose mothers took DES with those whose mothers took a placebo show a higher risk of certain rare cancers for daughters of DES takers	Most prevailing studies failed to compare the incidence of cancers allegedly caused by DES in the general population to that among daughters of DES users
SILICONE BREAST IMPLANTS	Clinical, animal, and laboratory studies show that women with leaking or ruptured silicone breast implants are more susceptible to chronic fatigue syndrome, rheumatoid arthritis, multiple sclerosis, and lupus	Clinical, animal, and human studies show no association between silicone and cancer, arthritis, lupus, and other problems. No published epidemiologic studies show such a relationship

DATA: BW

THE POWER OF MUTUAL FUNDS

THEY'RE REINVENTING THE WAY WE SAVE—AND RESHAPING THE ECONOMY

It may be hard to believe, but less than 15 years ago, the mutual fund was an endangered species. Investors were pulling more money out of funds than they were putting in, and the number of funds was shrinking. It seemed only a matter of time before most of them closed up shop for good. But buoyant stock and bond markets, the development of a host of new investment products, and lots of savvy marketing have transformed mutual funds into one of the most dynamic and successful industries in the country.

People are pouring money into mutual funds to the tune of $1 billion a day. The mountain of mutual-fund assets now stands at $1.6 trillion, compared with less than $50 billion in 1977—and the last $600 billion has piled up only since 1990. By some estimates, the funds could top $4 trillion by the end of the decade.

But numbers tell only a small part of the story of the funds' power. Mutual funds are altering the way Americans save and invest, offering a menu of investments unthinkable a decade ago. By channeling the savings of millions of consumers into hundreds of billions of dollars of investments, funds are reshaping the U. S. financial landscape and the economy itself. Mutual funds have lowered the cost of capital for industry and government alike. During a period when banks and other financial institutions have been pulling in their horns, mutual funds have been providing the capital for financially strapped companies and municipalities to rebuild their tattered balance sheets. And the fund companies, through their control of billions of dollars of individual investors' assets, carry enormous clout with management as stockholders and bondholders.

The idea of a mutual fund is simplicity itself. Funds pool investors' money and buy stocks, bonds, or money-market securities. Individuals get greater diversification, less risk, lower transaction costs, and far more professional management than they could achieve on their own.

But funds do a lot more than that. By pooling, they have the power to turn illiquid investments such as municipal bonds, junk bonds, or small-company stocks into highly liquid ones. To sell a couple of municipal bonds, for example, an investor might have to wait days or take a lower-than-market price from a dealer. But that same investor can sell shares in a muni-bond fund that very day, and without having to give up a nickel on price. Says investment consultant Peter L. Bernstein: "The mutual fund changes the whole nature of the underlying investment."

By liquifying the illiquid, mutual funds have affected the entire economy in ways that macroeconomists are on beginning to grasp. Take the muc watched money supply, a tradition measure of future economic activity. B cause of the funds' higher yields, mar investors have moved money to shor term bond funds—where the money not counted as part of the money su ply—and out of bank money-market a counts, where it is. This phenomeno says Lawrence B. Lindsey, a member the Federal Reserve Board, "has ma understanding and interpreting the mo etary aggregates more difficult." Mut al funds, in effect, are redefining "mo ey." And the Fed—in order to get better handle on policy—may have rethink what it calls money, too.

HOUSEHOLD NAMES. The power of mut al funds is most obvious in their impa on the stock market. In fact, now, the are the stock market. Over the pa three years, mutual funds have pu more than $300 billion into equities—gi ing a huge lift to stock prices. The fund are making it easier for emerging com panies to get new equity capital. Eve mature companies can now raise equit more cheaply.

For government, especially state an local borrowers, tax-exempt funds are mother lode—the major source

1976 First tax-exempt municipal bond funds

1977 Merrill Lynch introduces Cash Management Account, built around a money-market fund

1979 Tax-free money-market funds introduced

1980 SEC adopts 12(b)-1 rule, allowing funds to tap assets for advertising and marketing

1981 With short-term interest rates nearly 20%, money-market fund assets soar

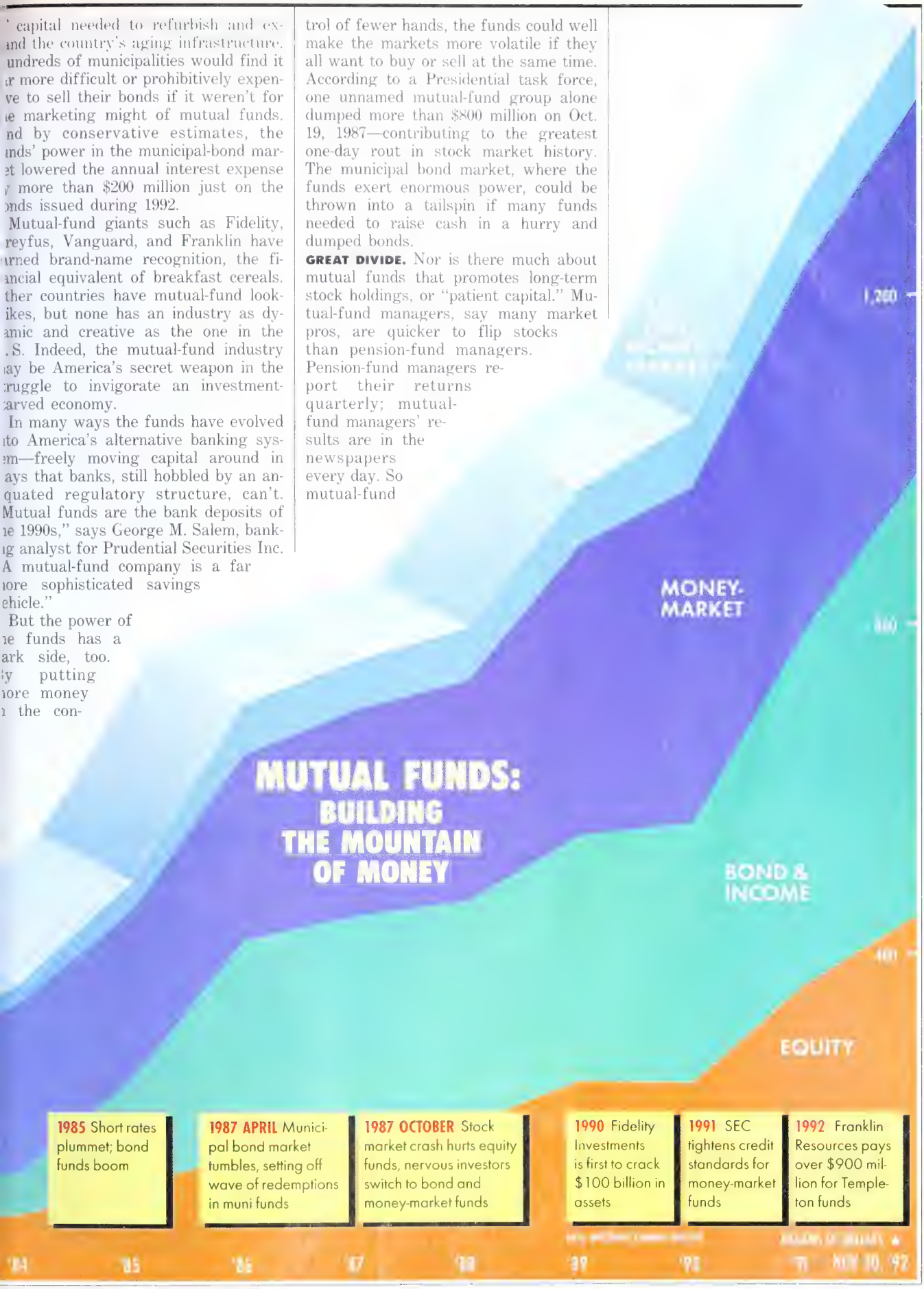
' capital needed to refurbish and ex- ınd the country's aging infrastructure. undreds of municipalities would find it ır more difficult or prohibitively expen- ve to sell their bonds if it weren't for ıe marketing might of mutual funds. nd by conservative estimates, the ınds' power in the municipal-bond mar- ɜt lowered the annual interest expense ; more than $200 million just on the ɔnds issued during 1992.

Mutual-fund giants such as Fidelity, reyfus, Vanguard, and Franklin have ırned brand-name recognition, the fi- ıncial equivalent of breakfast cereals. ther countries have mutual-fund look- ikes, but none has an industry as dy- ımic and creative as the one in the .S. Indeed, the mutual-fund industry ıay be America's secret weapon in the ;ruggle to invigorate an investment- ;arved economy.

In many ways the funds have evolved ıto America's alternative banking sys- ɜm—freely moving capital around in ays that banks, still hobbled by an an- quated regulatory structure, can't. Mutual funds are the bank deposits of ıe 1990s," says George M. Salem, bank- ıg analyst for Prudential Securities Inc. A mutual-fund company is a far ıore sophisticated savings ehicle."

But the power of ıe funds has a ark side, too. ;y putting ıore money ı the control of fewer hands, the funds could well make the markets more volatile if they all want to buy or sell at the same time. According to a Presidential task force, one unnamed mutual-fund group alone dumped more than $800 million on Oct. 19, 1987—contributing to the greatest one-day rout in stock market history. The municipal bond market, where the funds exert enormous power, could be thrown into a tailspin if many funds needed to raise cash in a hurry and dumped bonds.

GREAT DIVIDE. Nor is there much about mutual funds that promotes long-term stock holdings, or "patient capital." Mutual-fund managers, say many market pros, are quicker to flip stocks than pension-fund managers. Pension-fund managers report their returns quarterly; mutual-fund managers' results are in the newspapers every day. So mutual-fund



THE LARGEST FUND MANAGERS

Management company	Assets* (billions)	Market share*
FIDELITY	[illegible]	10.2%
[illegible]	107.6	6.7
VANGUARD	[illegible]	5.8
[illegible]	[illegible]	4.7
[illegible]	[illegible]	4.0
CAPITAL RESEARCH	[illegible]	3.9
[illegible]	[illegible]	3.3
[illegible]	[illegible]	3.0
[illegible]	[illegible]	2.8
[illegible]	[illegible]	2.8
[illegible]	[illegible]	2.6
PRUDENTIAL	[illegible]	2.1
IDS	27.9	1.7
[illegible]	[illegible]	1.6
[illegible]	[illegible]	1.6
T. ROWE PRICE	[illegible]	1.6
PROVIDENT INSTITUTIONAL	[illegible]	1.5
[illegible]	[illegible]	1.5
GOLDMAN SACHS	25.0	1.4
[illegible]	[illegible]	1.3
[illegible]	[illegible]	1.3
[illegible]	[illegible]	1.2
[illegible]	[illegible]	1.2
[illegible]	[illegible]	1.1
[illegible]	[illegible]	0.9

*Includes mutual funds and closed-end funds as of September, 1992

**Has since acquired Templeton funds, which would bring Franklin's total to $76.9 billion, with a 4.8% share of the market

DATA: STRATEGIC INSIGHT

managers are more short-term oriented.

By rolling over an expiring certificate of deposit into a mutual fund, consumers and their money cross a great divide. The CD is government-guaranteed, but the mutual fund isn't. However, the funds have built credibility to the point that investors are willing to give up that assurance. So far, the funds have remained relatively free from scandal, in contrast to the much-publicized wrongdoings at banks, brokerage houses, thrifts, and insurance companies. There is some concern, however, that the funds have grown far faster than regulators' ability to supervise them (page 68).

Even with the billions under their care, the chiefs of the giant mutual-fund companies, such as Fidelity's Edward C. "Ned" Johnson III, Dreyfus' Howard Stein, and Vanguard's John C. Bogle, are not the J. P. Morgans of our day—powerful enough to make managements shake with fear that they're about to pounce on a company. Sure, the fund companies may own together a big chunk of a particular stock. But each company in turn operates dozens of funds that may own that stock, each with varied investment objectives.

Still, as the funds mushroom in size, says Paul Getman, an economist at Regional Financial Associates, "the Fidelities and Dreyfuses and Vanguards will have a power over Corporate America that they never had before." Fidelity Investments, the largest fund company, encourages portfolio managers to challenge corporate managements on such issues as staggered terms for company directors, pay raises, and antitakeover measures. Nell Minnow, who counsels pension funds and other institutional investors on shareholder rights, thinks other funds will follow Fidelity's lead. She says new SEC regulations regarding proxy solicitations for all shareholders make it easier for the mutual funds to oppose management.

But legal and practical barriers prevent funds from taking part in corporate affairs in the way a Warren Buffett or a Laurence Tisch might well do—like getting a seat on the board. "The laws set up trip wires that would prevent a mutual fund from trying to control a company," says Craig Tyle, head of the legal staff at the Investment Company Institute, the fund industry's trade association. To wit: If a portfolio manager joined a corporate board, he would be privy to inside information and would be unable to make buy or sell decisions for his fund without breaking insider-trading laws. In short, the fund manager can't serve his fund shareholders and the company's shareholders at the same time.

CHEAPER CAPITAL. Still, the funds affect corporate managers in a fundamental way. In today's market, their investment decisions determine stock prices. To really see the power of mutual funds, just consider what the stock market would be without them. In the first half of 1992, mutual funds purchased stocks at an annualized rate of $192.5 billion. Other market participants bought, on balance, only $7 billion more. The bottom line: Mutual funds provided 96% of the money that went into stocks. In 1991, that figure was 80%.

While the individual investor is cutting his direct holding of stocks, indirect holdings are soaring. The percentage of stocks held by individuals fell from 71% in 1980 to 49.7% in 1992. Yet over that same period, the percentage of household equity assets in mutual funds rocketed from 5% to more than 35%.

The funds have driven stock prices to historically high levels. Although th worries some investors, there's a hug often unappreciated, beneficial impa on the economy: The cost of raising eq ty capital has been reduced. The high the price-earnings ratio, the lower t cost of equity capital. Think of it th way: A stock is selling at $10 and ear $1 a share. The company wishes to ra capital. For every $10 it gets by selling share of its stock, it gives the purchas $1 in earnings. But now, double t share price. For giving up $1 in ea ings, the company now takes in $20. effect, its cost of equity has be halved.

For years, sky-high stock prices in T kyo, where price-earnings ratios we triple those in the U. S. market, broug the cost of capital down to under 2% and were the very weapon that Jap Inc. used to eat its competitors' lunche Even now, despite the sell-off in Jap nese stocks, U. S. p-e ratios are well b low those in Japan. Over the past yea companies have taken advantage of hig stock prices to raise $72.4 billion in eq ty, according to Securities Data Co., a that's helping clean up the debt burde from the '80s and provide fresh funds expand.

BIOTECH BALLAST. The funds are esp cially vital to the new-issues marke where hundreds of fledgling compani have gone public over the past tw years. "When we do an [initial publ offering], there are 50 to 100 accoun that matter, and most of them are mut al funds," says Vikram S. Pandit, a ma aging director at Morgan Stanley & C

Indeed, the pace of IPOs closely track

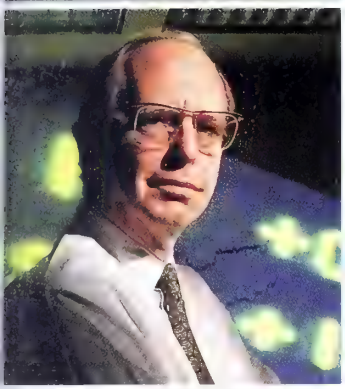
FUNDS GRAB A GROW

DATA: FIRST BOSTON CORP., FEDERAL RESERVE BOARD

SUPERSTARS OF THE MUTUAL-FUND INDUSTRY

CHARLES JOHNSON
FRANKLIN RESOURCES
A big bond-fund manager, he is moving into equities with the purchase of Templeton funds—the industry's first megadeal

HOWARD STEIN
DREYFUS
While others emphasized stocks and bonds, he spent heavily to build his already huge money-market fund business



NED JOHNSON
FIDELITY INVESTMENTS
Clever marketing, a big investment in technology, and an army of talented portfolio managers give his firm a long lead over its rivals

JOHN BOGLE
VANGUARD GROUP
His strategy is to drive down the cost of running mutual funds—and to pass the savings on to the investor as higher returns

e investor purchases of equity mutual nds. Robert Natale, who follows IPOs r Standard & Poor's Corp.'s *Emerging Special Situations*, says IPO markets ways move in sync with mutual-fund flows. "It's impossible to sell an O to a mutual fund when there is no w money coming in," says Natale. But when the cash is flowing, a new sue is a quick way to put the money to ork."

OF FINANCIAL ASSETS

1992*

*END OF SECOND QUARTER

Mutual funds have always had a larger influence on emerging growth companies than, say, pension funds, but in the past few years that clout has been especially strong. The biotechnology industry, for instance, is heavily dependent on mutual funds to finance its growth. Health-care funds alone control nearly $5 billion in assets, and hundreds of other funds hold billions in biotech stocks. Fidelity funds, for instance, control about $1.7 billion in biotechnology stocks—about 7% of the industry's total market capitalization, and about half of that is in one fund, the Fidelity Biotechnology fund. That makes Karen Firestone, who has run the fund only since September, a pivotal player in biotech, as was Michael Gordon, her predecessor. Firestone has no difficulty reaching scientists, clinical investigators, or executives. Says Firestone: "Biotech companies are willing to talk because sometime in the future, they're all going to sell stock again, and they're going to need the mutual funds."

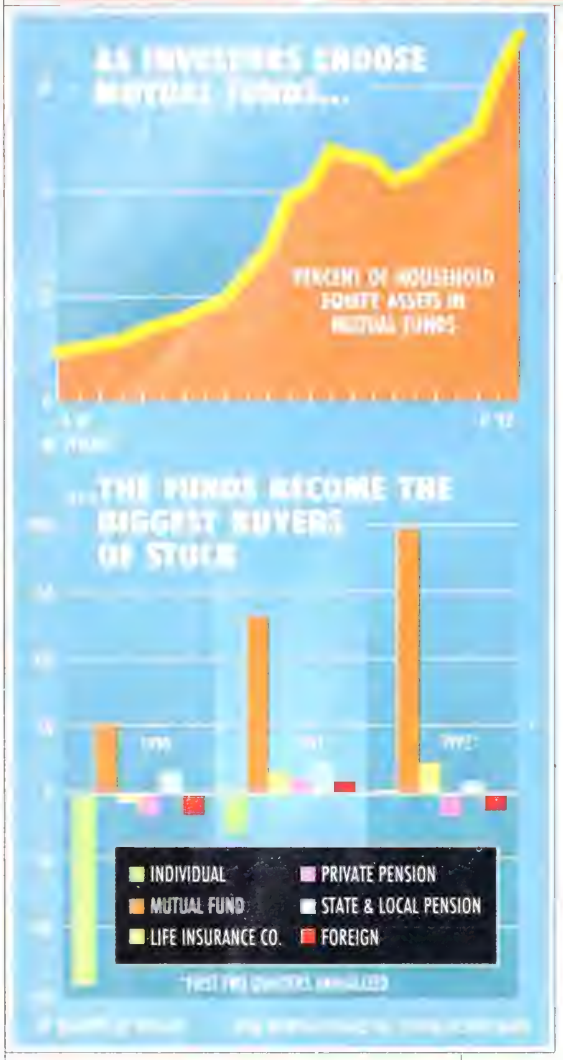
MUNIS TALK. The ebb and flow of cash on high-yield bond funds has a profound impact on the junk-bond market, too. Mutual funds hold an estimated $60 billion in junk bonds and are the major player in today's high-yield market, since many of the big players of the 1980s have thrown in the towel. "Since 1991, anywhere from 50% to 80% of the daily transactions are with mutual funds," says Joe Bencivenga, a managing director and head of corporate-bond research at Salomon Brothers Inc.

But the bulk of the mutual-fund business is in neither equities nor junk bonds. Fund investors, by and large, buy conservative bond funds, both the taxable and the tax-free varieties. That makes mutual funds, with an estimated $200 billion in U. S. government securities in their portfolios, a significant force in that market, helping to finance the federal debt.

While there are other big players in the U. S. government market, such as pension funds, insurance companies, and foreign investors, mutual funds are No. 1 in the tax-exempt municipal market. A decade ago, banks and insurance companies took active roles in the market. But declining profitability and changes in the tax laws forced them to the sidelines. The muni funds are the only power left in that market.

The funds have done a bang-up job in marketing single-state municipal bond funds, one of the industry's fastest-growing products. These funds offer resident investors income that is exempt from state as well as federal taxes.

Look at the Franklin California Tax-Free Income Fund. With $13 billion in securities issued by the state and local governments, this fund accounts for about one-third of all the assets in California bond funds. That makes Franklin Resources Inc. in San Mateo the single-largest investor in California municipal



bonds—and the most powerful. As if to confirm Franklin's status, the California state treasurer appointed Tom Kenny, Franklin's director of municipal research, to a technical advisory committee of the California Debt Advisory Commission. He's the first representative from a mutual-fund company to hold such a post.

Few California bond deals come to market without first checking in at Franklin. "Issuers and their investment bankers are coming to see us all the time," says Kenny. "We like to be involved in the transactions early on." Kenny says issuers informally consult with his and other fund companies about upcoming bond sales, trying to shape maturities, covenants, and call features to the funds' needs.

'TWO-WAY STREET.' "Sure, we tailor [bond] provisions just for the mutual funds," says Jeffrey Holt, an investment banker in municipal finance at PaineWebber Inc. "But it's a two-way street." Holt says muni portfolio managers welcome innovative financing techniques that employ options, futures, or interest-rate swaps. "These strategies can save money for issuers, but are too complex to explain or sell to individual investors. So without the funds, they just wouldn't be done."

Muni funds also demand more and better information from issuers than do individuals. "Because of mutual funds, local governments are beginning to provide a higher level of financial reporting than they were accustomed to," says Jack Haley, who manages several California muni funds for Fidelity. While he says the expense of reports may make it more difficult for small, infrequent issuers, major bond issuers now keep bondholders informed.

Even if they are pickier, municipal-bond issuers like dealing with the funds. "It's easier to sell to a handful of funds than to thousands of individuals," says Philip Shapiro, chief financial officer for the Massachusetts Water Resources Authority. In one $836 million offering, he recalls, the Water Resources Authority met with representatives of 25 funds, and all but two bought in. In total, Shapiro estimates that funds hold about 60% of the authority's bonds.

This concentration of buying power is helping to lower the costs of selling bonds. Aaron Gurwitz, who heads municipal research at Goldman, Sachs & Co., figures lower distribution costs allow issuers to save 0.05 to 0.10 percentage points in interest expense. That may not sound like much, but it works out to as much as $230 million a year, based on the 1992 municipal-bond issuance of $230 billion.

But there is a drawback to the mutual funds' overwhelming dominance of the muni market. Should the funds be hit with a wave of redemptions, asks Ian Mackinnon, who manages the fixed-income funds for Vanguard Group, "who's going to buy the bonds?" In April, 1987, investors stampeded out of long-term municipal-bond funds, forcing fund managers to dump bonds to raise cash. Mackinnon says Vanguard alone had to sell $300 million of bonds in one week, and Drexel Burnham Lambert Inc. and Salomon Brothe bought most of them. Drexel is go Solly is out of the muni business—a Vanguard's muni business is nearly f times as large.

While the enormous force of muti funds is a recent phenomenon in the uity and muni market, the funds' mus has long been at work in the mon markets. When money-market mut funds burst on the scene in the l 1970s, they electrified the financial m kets. At the time, banking regulatio kept a lid on interest rates for retail, consumer, deposits. But the money-m ket mutual funds enabled individual vestors to participate in the wholesa or "money," market of Treasury bil jumbo CDs, and commercial paper where interest rates were a lot highe

Not only did the money funds lu banks' best depositors, they captur the best borrowers, too. Flush with cas the money funds encouraged the expa sion of the commercial paper market short-term corporate IOUs. By issuin commercial paper, a corporation cou save 1½ to 2 percentage points ov what it would cost to borrow from t bank. So the banks' former deposito and former borrowers could now me via the money-market fund, with a hig er net yield to the investor and a low interest expense to the borrower.

This end run around the banks h helped save corporations more than $1 billion in interest expense over the pa 15 years. But it has been devastating f the banks. "By taking away the bigge and most creditworthy borrowers, t funds made it harder for banks to e tend credit to small and medium-si borrowers," says Neal Soss, an econ mist at First Boston Corp.

MORE FLAVORS. Banks are still gropi for ways to challenge mutual funds f the investor's dollar. Wi loan demand weak, bank are unable and unwilling pay competitive rates for d posits. Nor can banks, whic must maintain an expensiv branch system, hope to cor pete with the funds' lowe cost structure. For exampl Vanguard Group Inc., t No. 3 fund manager and t leader in low-cost funds, r cently introduced a series U. S. government-securiti funds with a maximum e pense ratio—the cost of o erating the fund—of 0.15, 15¢ per $100. In contras banks now must pay 23¢ p $100 just for federal depos insurance.

Money funds have raised billions for business while luring away banks' best depositors

Prudential's George S

n, among many others, thinks funds ve a special appeal to aging baby omers who are just starting to hit eir prime savings-and-investment ars. By 2000, the 45- to 64-year-old age oup will increase by 30%. The boom-s, who make up a good part of that oup, "are not going to be satisfied th the three flavors of investments at banks offer," says Salem. "They'll ant 50 or 100 flavors from a mutual-nd company."

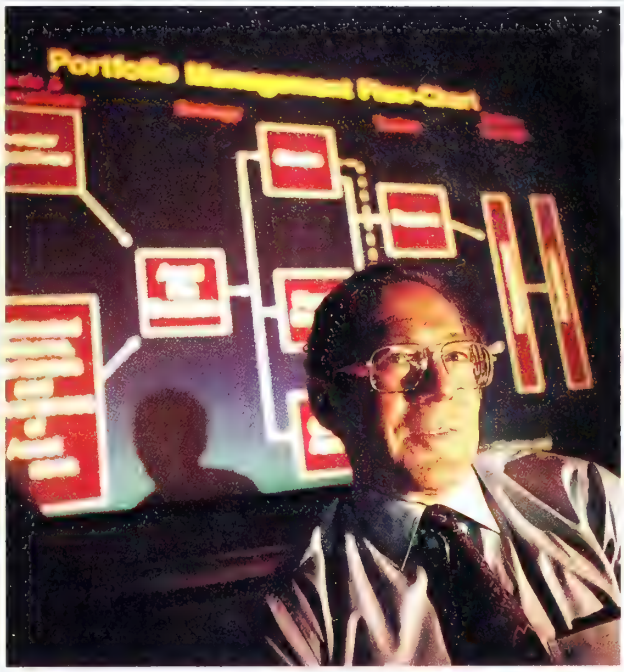
The weakness of the banks and the strong demographics lead J. William Bowen of First Manhattan Consulting Group to forecast that the public's holdings of mutual funds will grow by 15% a year for the remainder of the decade. Over the same period, Bowen thinks that consumers' bank deposits will grow only 4% per year. If he's right, by the year 2000, mutual funds will have $4.3 trillion, vs. $4 trillion for the banks.

A good chunk of the new money is coming from savers fleeing low-yielding bank deposits or from stock investors latching on to the bull market. What happens if interest rates start moving up or the stock market swoons? Some nervous investors may dump their initial fund, but experience shows that they are more likely to switch funds than go out of funds completely. After the 1987 stock market debacle, less than 1% of the money left the fund companies. The dollars remain because the funds have

HOW DO YOU INVEST $117 BILLION? ART ZEIKEL KNOWS

Charles E. Merrill, the patriarch of Merrill Lynch & Co., brought "Wall Street to Main Street" by selling stocks and bonds. What he refused to sell, unlike his rivals, was mutual funds. Merrill, the firm's history notes, considered them "unnecessary intermediaries whose early record and practices he found, at best, unimpressive."

Too bad Merrill, who died in 1956, didn't live to meet Arthur Zeikel, president of Merrill Lynch Asset Management Inc. Zeikel, 60, who joined MLAM in 1976 and became president a year later, turned a small two-fund firm into the nation's second-largest mutual-fund operation, with $116.6 billion under management in 158 funds. More important, mutual funds are one of Merrill Lynch's most steadfast moneymakers. Merrill-watcher Perrin Long of First of Michigan Corp. estimates that selling and managing funds will account for about 20% of Merrill Lynch's estimated $940 million in 1992 profits and perhaps as much as 25% in 1993.



ZEIKEL: FEW RESTRICTIONS ON MERRILL'S FUND MANAGERS

It shouldn't come as a surprise that the nation's largest brokerage firm, with 12,000 brokers, or "financial consultants," is also one of the largest fund companies. Remember, too, that there's about $43 billion in money-market funds tied to the firm's cash management accounts (CMAs), which Merrill pioneered in the 1970s.

MAJOR BOOST. Zeikel can't claim credit for inventing the CMA, but under his guidance, Merrill won the go-ahead from the Securities & Exchange Commission for "dual pricing" in 1988. That enabled it to offer two versions of each stock-and-bond fund: one sold with an up-front load, or sales charge, and the other with a back-end load and annual distribution fee. "It was a major boost to the business," says Zeikel, since many investors balked at the up-front charges. Dual pricing has since been widely copied by Merrill's competitors.

Zeikel's unit does have a lock on all Merrill money-fund business, but the brokers also sell other fund managers' wares. "The FCs [financial consultants] don't get paid extra to sell our funds," he says. "We have to earn their confidence." Zeikel says the FCs are, in effect, his customers, since they determine how clients' funds are invested.

Although his background is in investment management, Zeikel, who worked previously at Dreyfus, Standard & Poor's, and Oppenheimer, has never managed any Merrill funds. "I've been tempted," he says, "but fortunately, I backed down." Instead, he gives his managers a free hand. Nonetheless, fund maven A. Michael Lipper of Lipper Analytical Services Inc. notes Zeikel's imprint on the portfolios: "Art's a value investor with a fundamental orientation, and he's risk-averse. And that's what you see in the funds."

Like any good salesman, Zeikel takes every opportunity to press the flesh with Merrill brokers and clients, from golf outings in Jacksonville, Fla., to speeches on global economics in Taipei. Several times a month, he lectures to visiting Merrill Lynchers at the conference center and office campus in Plainsboro, N. J., where MLAM is housed. Those talks are not about mutual funds, nor are they sales pitches.

STANDOUTS. Instead, Zeikel speaks about asset allocation and portfolio management, subjects on which he, well, wrote the book: Zeikel, along with Edward D. Zinbarg, an executive vice-president of Prudential Insurance Co., and the late Jerome B. Cohen, Zeikel's and Zinbarg's one-time professor at City College of New York, are authors of *Investment Analysis & Portfolio Management*, a textbook that is used at more than 300 colleges. A sixth edition is now under way. He's also a member of the editorial board of, and occasional contributor to, *Financial Analysts Journal*.

Even with their huge sales force, Merrill funds would not be so large if they didn't perform. John Rekenthaler, editor of *Morningstar Mutual Funds*, says their returns are better than other big brokers' funds but are only middle-of-the-pack compared with the top 30 fund companies. Still, Merrill has some standouts: Merrill Lynch High Income, with a 10-year average annual return of 13.4%, is a leader among junk-bond funds, and Merrill Lynch Pacific, 20.6%, is one of the first and best Asian funds. Those are records even Charles Merrill would tip his hat to.

By Jeffrey M. Laderman in Plainsboro, N. J.

created investments for all seasons.

In fact, it seems the only way banks can compete with mutual funds for the consumer's dollar is to get into the fund business. Avi Nachmany of Strategic Insight Inc., a New York mutual-fund research and consulting service, estimates that banks now manage about 10% of fund assets and account for 12% of mutual-fund sales—a number that will likely increase in coming years.

It's not only the banks that are turning to funds. Most major brokerage firms have long since climbed on the mutual-fund bandwagon, using them as core holdings for their clients. Merrill Lynch & Co., the nation's largest brokerage firm, is the second-largest mutual-fund manager, and 3 of the 10 largest fund managers are brokerage affiliates or subsidiaries. Revenues from selling mutual funds to investors have grown tenfold over the past decade, according to the Securities Industry Assn.—and fees for managing funds, more than eightfold. Says A. Michael Lipper of Lipper Analytical Securities Corp.: "Mutual funds are some of the most profitable products that brokerage firms can sell."

EXPANDING OPTIONS. With banks and brokerages also feeding money into them, mutual funds are gaining ground on the pension funds, which now control nearly twice as many financial assets as the mutual funds. But employers are increasingly turning away from defined-benefit retirement plans—the bulk of today's pension assets—toward defined-contribution pension plans, such as the 401(k), that play into the hands of the mutual-fund companies. Mutual funds have about 18% of that $300 billion market now, but their market share is expected to grow to 27% within five years, according to Access Research Corp. The reason is simple. These pension plans put the investment decision in the employee's hands by offering investment options. And since mutual-fund companies already do that for investors, they're well-positioned to capture that booming business.

Skeptics may question the mutual funds' ability to maintain their double-digit growth rate and hold on to their newfound power. The naysayers may also dismiss America's enthusiasm for the funds as a passing fancy, much like the mania for hard assets in the 1970s and the leveraged-buyout binge of the 1980s. But the funds offer a multitude of investment choices at a low cost to a public that's hungry to increase the returns on its financial assets. That's just the mix of ingredients that could keep the funds on top for years to come.

By Jeffrey M. Laderman in New York, with Geoffrey Smith in Boston

THE SEC MAY NOT HAVE ENOUGH GUNS

In the 1980s, the deregulators missed the mutual funds. The web of rules that govern funds, such as those designed to prevent self-dealing, maintain the integrity of fund assets, and keep investors apprised of fund activities, went unchanged. But the funds boomed nonetheless, and perhaps because of the rules, the funds have avoided the sort of scandals that rocked other financial institutions and cost investors money.

Yet the industry's explosive growth in recent years has given pause to regulators. The Securities & Exchange Commission is nervous that its staff assigned to monitor funds may be stretched too thin. Only 126 federal examiners keep tabs on nearly 3,800 mutual-fund portfolios with assets of $1.6 trillion. If the lack of examinations leads to a scandal, "investor confidence will be at risk," worries Douglas J. Scheidt, the enforcement chief for the SEC's Investment Management Div.

The fund industry itself is the biggest booster for stronger enforcement. The Investment Company Institute, which represents 95% of the funds, has lobbied to bolster the monitoring effort. "The industry is very cognizant that any guy screwing up is going to have horrendous consequences across the board," says Thomas R. Smith Jr., a New York securities lawye

The SEC decided in 1991 that it cou maximize its resources by concentra ing on the 100 largest fund manager By reviewing such giants as Fideli Investments and Vanguard each yea examiners keep watch on compani that account for 87% of fund assets.

'BIG STICK.' But smaller firms are mo troublesome. Scheidt says that the record-keeping is often lax, yet the don't receive SEC scrutiny unless som one has filed a complaint. In Marc for instance, the SEC censured Prim Financial Funds Inc. in Scottsdal Ariz., for records and disclosure viol tions. Prime agreed to return $50,00 plus accrued i terest to shar holders.

The SEC ha targeted other a eas of potenti abuse: fund dire tors who negle their watchdo role, illegal us of inside informa tion, and failur to perform cred analyses befor buying securitie The message t violators: SE Investment Mar agement Div. D rector Mariann K. Smythe in tends to use en forcement action as a "big stick," says Scheidt Smythe's unit i negotiating settlements with two yet unnamed funds. Both cases involve the mispricing of securities in func portfolios.

In May, the SEC issued a 560-page review of the Investment Company Ac of 1940, the main law that rules the funds. The report proposed only mod est technical changes. "The act is very tough, and it's something that works," says Matthew P. Fink, president of the Investment Company Institute. Indeed there's probably nothing wrong with fund regulation that a beefed-up enforcement effort wouldn't fix.

By Michael Schroeder, with Dean Foust in Washington

A "BIG STICK" STRATEGY: MUTUAL-FUND REGULATOR SMYTHE

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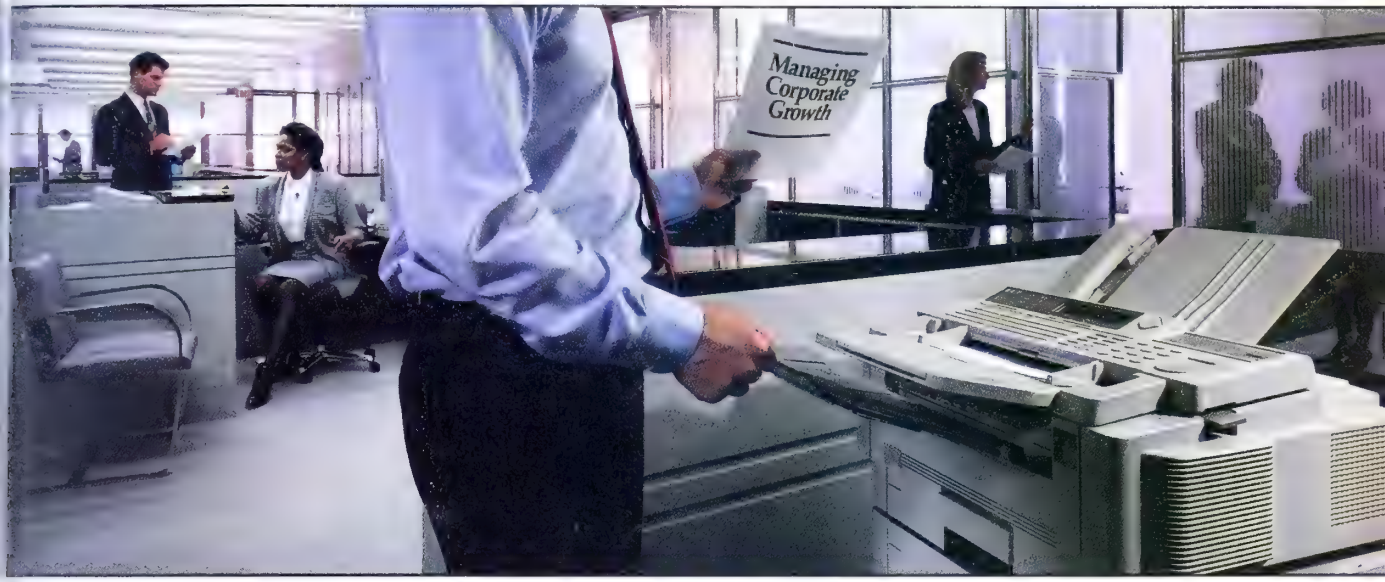

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BANKING ON FEES

Will too many players kill the profits?

State Street Boston Corp. almost never makes headlines. In contrast with such other regional banks as Banc One Corp. and NationsBank Corp., which are constantly in the news with aggressive acquisition programs and other highly visible projects, State Street Boston quietly pursues such unglamorous activities as processing securities transactions and providing record-keeping services for pension funds and other clients. But to growing numbers of bankers, State Street's approach may point the way toward the best source of future banking profits.

While most banks get the bulk of their revenues from loans and investments, State Street concentrates on businesses that generate fees. Compared with lending, fee activities are safer and more reliable. "You do millions of little things and make a little money on each one," says Marshall N. Carter, State Street's president and chief executive officer, adding that other banks are "trying to do more . . . [of] what we're doing." Fee income at State Street provides about 60% of revenues, compared with about 33% at most big banks, according to Salomon Brothers Inc.

BAD GOOD NEWS. Although loan demand has been very sluggish for the past year or two, banks have still been able to reap record profits from loans and investments whose yields have been several percentage points higher than the rates banks pay depositors. But those assets could prove much less profitable this year if the economic recovery pushes up short-term interest rates.

And while a stronger economy will stimulate loan demand, longtime bank customers are increasingly turning to the capital markets and finance companies for credit. Hence, the interest in fee businesses.

There's only one hitch: Fee activities are unlikely to be the earnings lode many bankers expect. Banks that expand their fee-based functions could find themselves vying so hard for market share that profits won't materialize. "It'll be interesting to watch down the road to see if everybody can be competitive in this fee-based business," says John F. McGillicuddy, CEO of Chemical Banking Corp. "I personally feel that unless you're in a unique position, chasing fee-based business to the detriment of your loan product isn't going to be the way to heaven." The competition, he says, is too fierce.

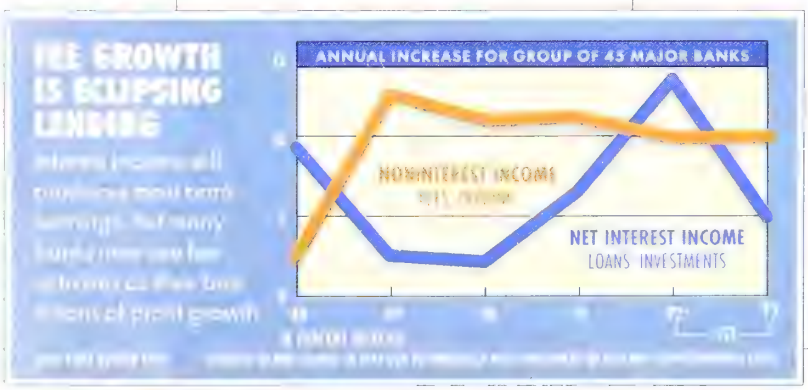
CARTER: MORE THAN $1.2 TRILLION UNDER CUSTODY MAKES STATE STREET A MAJOR CONTENDER—BUT EVEN IT IS CUTTING ITS BIDS

It's not hard to see why banks are currently chasing fee revenues. Unlike lending, these businesses generate relatively steady income—a boon to banks whose profits from investments and loans rise and fall with interest rates. Fee-based activities are also relatively low-ris That's esp cially alluring t day, because whi they require big i vestments in techn ogy, fee-generating se vices don't add to bank regulatory capital need Every $100 in corporate loa must be backed by $8 in capit but there's no such requireme for spending on functions such trust management.

Many banks have been organizin new, fee-based operations. Republic Ne York Corp., for instance, recentl launched Republic New York Securiti Corp., which provides stock lendin clearing, and other administrative se vices. It will be followed by a sister fir specializing in asset management. "W have recognized that in this interest-rat environment, we need to offer depos tors other things," says Republic CE Walter H. Weiner.

DROPOUTS? But even State Street's Ca ter concedes that some fee businesse are maturing. "Right now, there are si or seven major players in master trust, and he expects smalle banks to drop out. Lo don's market for custo dy services is a case i point, he says. Thre years ago, nine bank offered it. Today, ther are 24. But in tw years, Carter expect that number to fal back to just 12 to 18.

Carter is optimisti that his bank can far



·ll in fee-based businesses, and given ıte Street's commanding market ıre, experts say his view is justified. ıte Street has more than $1.2 trillion assets under custody. But even State ·eet is lowering its bids. Last winter, › bank won the custody business of › California Public Employees' Retire-ınt System from Boston Safe Deposit Trust Co. with a bid of $4.9 million nually—roughly half what many other ms were prepared to charge.

Lots of banks are jumping into a ver business: management of compa- retirement arrangements, particular- 401(k) plans. Assets in 401(k) plans are 00 billion, according to the market re- ırch firm Access Research, and climb- ; fast. Besides State Street, major con- ıders include Bankers Trust New ·rk Corp. and Wells Fargo & Co.

RIETY PACK. At the moment, there's ›re than enough business to go ›und. Still, competition is heating up ;t—and not just among banks. Fidelity vestments now has over 10% of the 1(k) market, says Robert L. Reynolds, esident of Fidelity's retirement-ser- ·es subsidiary. He expects 401(k) plans grow more than 12% per year for at ıst several years, but even so, he says, price war could eventually break out. Michael Urkowitz, executive vice-pres- ·nt for Chase Manhattan Corp.'s Info- rv International subsidiary—a major ıyer in a range of fee-based services— ys his bank is not emphasizing 401(k) siness because of the expected compe- ion down the road, especially from nbanks. "When companies choose eir 401(k) provider, they want someone th a menu of [investment] choices, stody services, record-keeping, the 800 ·ephone number, and investment ad- ·e," he says. "If you look at that bun- › of services and look at companies at are doing that already, it looks like mutual-fund company."

To be sure, some fee-based businesses e likely to remain highly profitable for me time. Banks have been able to ise retail banking fees, boosting arges on checking and savings ac- unts, forcing customers to pay to use ıtomatic-teller machines and other ser- ces, and docking them more for ›unced checks.

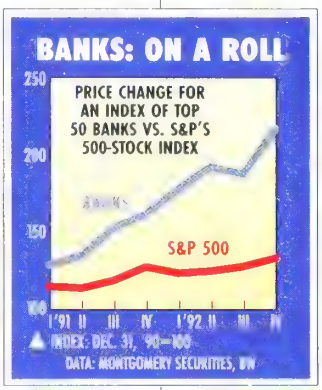
But if history is any guide, these are- ıs won't remain secure forever. Rapha- Soifer, an analyst at Brown Brothers arriman & Co., points out that banks ıve a long-standing practice of chasing ıe another into new businesses until e profits evaporate. Lending to Latin merica and commercial real estate de- ·lopers are prime examples. Today's ›t opportunities in fee activities could › ripe candidates for tomorrow's mar- ·t-share shoot-outs.

By Kelley Holland in New York

BANK STOCKS: THE FEAST MAY BE OVER

In 1992, it was close to impossible to lose money in bank stocks. Money-center bank stocks rose an average of 45%, while regional bank shares climbed even more. There's still plenty of good news around. Banks are logging record profits, which they have used to clean up their balance sheets. But many industry experts are starting to flash warning signals.

Last week, analysts removed buy recommendations from Citicorp, Bankers Trust New York, NationsBank, PNC Financial, and U. S. Bancorp. The major reason: high prices. Bank stocks have soared mainly because of surprisingly lush profits earned from the enormous spread between the high interest rates on their huge portfolios of Treasury securities and loans and the low rates they paid depositors. That situation, several analysts say, is unlikely to continue in 1993. "We think the group will perform only in line with the market in 1993," says Brent Erensel, an analyst at UBS Securities Inc. who downgraded all the banks but Citicorp. If short-term interest rates rise and banks' profits fall short of investors' lofty expectations, disappointed investors could desert high-priced bank stocks in droves.



NO ENCORE. The runup in bank issues has certainly been spectacular (chart). Since the start of 1991, many have more than doubled. Citicorp shares were trading on Jan. 4 at 22½, more than twice the 8⅝ they reached in late 1991. Share prices of other troubled banks also rocketed upward as their earnings improved. Washington, D. C.'s Riggs National Corp. ended 1991 at 4¼, but traded as high as 10⅛ on Jan. 4. In the same period, New Jersey's Midlantic Corp. shares went from 4½ to 18⅞. As of late December, Fidelity Investments' regional bank fund was the year's third-best mutual-fund performer, rising 49.28%, according to Lipper Analytical Services Inc.

Analysts give a variety of explanations why these stellar performances won't be repeated. Judah Kraushaar, an analyst at Merrill Lynch & Co., cites the likelihood of rising interest rates and continued weak loan demand. That, he says, means investors should limit themselves to banks that are still cutting costs and generating strong revenue growth. He's also concerned about slumping real estate markets, and notes the pressure on banks by regulators and accountants to use market values instead of historical prices to account for their loans and investments. If that practice becomes a requirement, the reserves at some banks, especially those that have valued a major portion of their assets well above market levels, could look skimpy. That could turn off investors.

Other experts fret about the quality of banks' assets. Banks have been securitizing and selling off high-quality loans, particularly mortgages and other consumer loans. That means the average quality of what's left on their books is lower than it used to be—not low enough to cause a debacle, but certainly enough to raise questions in investors' minds about the unusually high price-earnings multiples that many bank stocks are trading at these days.

But only a few contrarians and short-sellers predict a sharp drop in bank stock prices, and there are still plenty of optimists. First Boston Corp. analyst Thomas Hanley argues that improved capital bases, a friendly interest-rate environment, and the prospect of lots of bank mergers and acquisitions should drive bank stock prices higher. G. Kenneth Heebner of Capital Growth Management says bank stocks are still trading at lower p-e multiples than the rest of the market. "The market is trading at 20 times earnings," he says. "A bank growth stock at 14 times earnings is cheap."

Then again, for most of the '80s, the p-e multiples of bank stocks averaged just 60% of that of the market. Currently, many bank stocks are trading at 1½ times book value, the highest ratio since the go-go years of the '70s.

"I would think it would be difficult to repeat 1992 in 1993," says Bruce Herring, a portfolio manager at Fidelity. Disaster is not in the offing, but a growing number of experts worry that investors who think bank stocks are headed for the moon may well have their heads in the clouds.

By Kelley Holland in New York

BY GENE G. MARCIAL

CABOT MEDICAL IS GETTING LOTS OF LONG LOOKS

Shares of practically every medical-device company are way off their highs, so the recent sharp upturn in the stock of Cabot Medical has left a lot of investors scratching their heads.

Cabot is a major maker of laparoscopic devices, used by surgeons to view internal organs. Its stock has winged up from 6½ in October to more than 11. By contrast, the leader in that business—the once high-flying U. S. Surgical—remains flat and hasn't recovered from the steep 50% decline that began early in 1992. So is Cabot's rise for real, or is it a bear trap?

"You better believe it's real," says Dan Veru, executive vice-president at New York investment firm Awad & Associates, which invests in small-cap stocks that it believes are undervalued.

Smart-money pros, says Veru, have started paying attention to Cabot Medical for two reasons: They are betting that it will be the next takeover target in the currently consolidating industry and that earnings are turning around.

Talk of Cabot Medical as a likely buyout candidate was triggered when two major pharmaceutical companies—Eli Lilly and American Home Products—acquired medical-device makers to participate fully in the rapidly growing market for laparoscopic surgical products. Lilly bought privately held Origin Medsystems, and American Home acquired Symbiosis at three times its $50 million annual sales.

READY MADE. The acquisitions show that Cabot Medical is undervalued, says Veru. Given the same valuation at which Symbiosis was acquired, Cabot is worth 28, he adds.

One big investor believes that Cabot Medical is being eyed by another major drug company. "No doubt it is simpler and far less costly to buy an existing successful company such as Cabot Medical than to build from scratch a new medical-device company."

Analyst Marie Conway of County NatWest Investment Banking Group is also high on Cabot Medical. She notes that demand for laparoscopic surgical products has been "exploding." She figures that some 500,000 general-surgery procedures that used laparoscopic techniques were performed in 1992, up from 20,000 in 1990.

Cabot's laparoscopic systems, which consist of endoscopes and light sources, are used in minimally invasive surgical procedures by general surgeons, gynecologists, and urologists.

Cabot Medical "is a pure play on the minimally invasive surgery industry," says Conway. She figures the company, which lost 26¢ a share in the year that ended Oct. 31, 1992, will earn 50¢ in 1993 and 75¢ in fiscal 1994.

STICKING WITH VELCRO

Lots of people know what Velcro is—that wonderful fastener material made of nylon or polyester used mainly for apparel, home furnishings, sports equipment, and aircraft furniture. Late-night talk-show host David Letterman made Velcro even more famous when he attached himself high up on a wall in one of his shows, using only Velcro to hold himself up.

But one of the best-kept secrets on the Street is Velcro Industries, a Netherlands Antilles company that owns 65% of Velcro Group, the U. S. company that makes and markets Velcro products. Its stock is trading on NASDAQ at 31 a share, up from 23 in January, 1992. Some pros believe there's more upswing to come and have been buying in.

The reason: They figure Velcro is worth 50, and they expect the stock to get there through a buyout. Whispers are that Velcro Chairman Sir Humphrey Cripps, who is in his 70s and resides in the Channel Islands, is thinking of selling his controlling shares. Cripps is said to have received inform inquiries from two U. S. companies.

Two years ago, a group led by S Humphrey attempted to acquire t company, says Rick Teller, senior vi president at Josephthal Lyon & Ross securities firm. When some shareho ers sued to block it on grounds that t offered price was too low, the gro backed off. Investors are apt to w come a better deal.

Teller notes that a recent restructu ing has helped Velcro weather the r cession. It earned $3.27 a share sales of $115 million in the year th ended Sept. 30, 1992. Earnings we $2.36 in 1991. Teller sees earnin growing to $3.60 a share in 1993 revenues of $125 million.

A DOUBLE BOOST FOR A FOODMAKER

Who's afraid of foreign comp tition? Certainly not Mi west Grain Products, a m jor producer of wheat gluten, starc and alcohol. In spite of stiff compet tion from Europe and Australia, Mi west is thriving and making mone And it will spend about $75 million t double its productive capacity over th next three years. That has turned som pros very bullish on Midwest.

"That means earnings could doubl as well, along with the planned capac ty growth," says one New York mone manager who has scaled up his buyin For a company that's practically deb free with strong prospects of shar earnings growth, the stock, now at 2 is way undervalued, says this pro. H thinks it will double in two years.

Food analyst Ron Strauss at Willian Blair & Co. agrees. Midwest, he says should benefit not only from the ex pected rise in demand for food prod ucts but also from the jump in deman for fuel alcohol because of the Clea Air Act.

Most cities are required to add oxy gen to gasoline in order to cut aut emissions. Fuel alcohol, or ethanol, i one of the by-products of gluten an starch. An ethanol/gasoline blend is a effective way to increase the oxyge content of gasoline, says Strauss Should ethanol demand strengthen, h adds, "there could be a spillover effec in the pricing of other alcohols, includ ing beverage and industrial alcohol which are also by-products in produc ing gluten." Strauss sees earnings of $1.65 a share in the year ending June 30, 1993, vs. $1.38 in 1992.

PALMER SLASHED 13,000 JOBS, FIRED A DOZEN VICE-PRESIDENTS, AND REPLACED THE FORMER HEAD OF U.S. SALES

DEC'S COMEBACK IS STILL A WORK IN PROGRESS

CEO Palmer is cutting costs and launching products, but slowly

When Robert B. Palmer was picked as Digital Equipment Corp.'s new CEO last July, he new he was taking on one of the toughest jobs in business today. Having spent years in DEC's manufacturing organization, he was only too aware of the company's problems to expect a quick turnaround. So he didn't promise too much. In October, Palmer told stockholders that after $3.4 billion in losses over the past two years, DEC's turnaround would be "self-evident" within a year. And, he said, he would overhaul DEC's debound management.

The good news for Palmer: The dramatic collapse of IBM's 1992 turnaround plan—resulting in a $6 billion write-down and a new round of cutbacks (page 30)—has shifted the spotlight from DEC. With investors, computer buyers, and industry-watchers obsessing over Big Blue, hardly anybody has noticed how slowly DEC's turnaround is progressing.

Palmer got off to a promising start. In July, DEC's board ousted founder Kenneth H. Olsen, giving 52-year-old Palmer a clear mandate to undertake the massive restructuring Olsen had resisted. Palmer immediately confirmed plans to eliminate 25,000 jobs—including some in DEC's bloated and inbred executive ranks. Then, he said he would recruit fresh blood to help run some of the nine major business units he set up. Many Wall Street analysts cheered, and some even issued "buy" recommendations for DEC stock.

Now, they're back to slashing earnings estimates. They foresee breakeven in the fourth quarter, not the third, and predict a loss of as much as $350 million for the year ending June 30. "DEC is still being itself," says Laura C. Conigliaro of Prudential Securities Inc. Adds Howard L. Niden, a Price Waterhouse consultant who advises DEC customers: "They haven't made the commitment they need to get rid of the old baggage."

Call it the Big Blue blues: Like IBM's John F. Akers, Palmer finds himself at the head of a huge organization that—despite good intentions—just can't change fast enough. What made both DEC and IBM so powerful in minicomputers and mainframes—heavy research spending, lavish product-development groups, huge marketing teams—is unaffordable overhead in a business that is driven by low-margin microcomputers. Dismantling the old organizations and getting thousands of employees to learn new ways of thinking are painfully slow processes.

LOSING GROUND. So, despite Palmer's desire for outside managers, all but two of the nine business units he created are headed by DEC veterans. Palmer, who joined DEC from chipmaker Mostek in 1985, still wants outsiders, but it's proving difficult to attract them because of DEC's uncertain prospects and its reputation for being hard on outsiders. And his proposal to put the salaried sales force on commission, as virtually every competitor does, has been delayed six months as sales managers wrestle over budgets and quotas. This "is not good," says Prudential's Conigliaro. It even looks as if completing DEC's new management team and divvying up work among the nine business units—organized according to types of customers and products—will take at least six more months.

While Palmer struggles with internal problems, DEC is losing ground in the market. Market researcher InfoCorp estimates that

PALMER'S FIRST REPORT CARD

ACCOMPLISHMENTS

- Shipped first Alpha AXP computer on schedule
- Trimmed executive bloat
- Reorganized company into nine business units, focusing on specific industries and product markets
- Closed plants in Boston, Burlington (Vt.), Puerto Rico, Springfield (Mass.)

CHALLENGES

- Slash employment by 15,000 by June
- Cut unprofitable products, such as VAXft line
- Hire outsiders to add management depth
- Institute sales commissions while maintaining good relations with customers
- Sign up partners to design Alpha microchips

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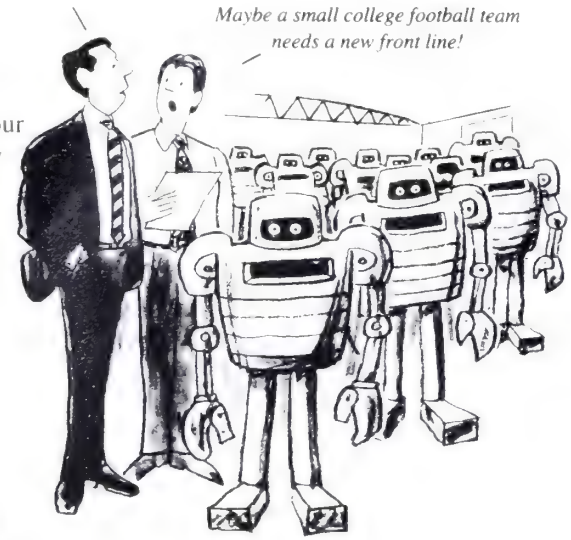

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DEC fell from second to third last ye behind IBM and Hewlett-Packard Co. in its core market—so-called midrange computers, priced from $25,000 to $700,000. InfoCorp even lowered DEC's market shares for prior years.

Still, Palmer, who was unavailable to speak with BUSINESS WEEK, has made some impressive gains. He axed a dozen vice-presidents and replaced some key executives, including Donald P. Zeresi, the former head of U.S. sales. And he pointedly made the new business-unit managers report directly to him, setting the stage for Chief Operating Officer John F. Smith to retire on Jan. 31. Dartmouth College management professor John K. Shank gives Palmer credit for attacking bloat and bureaucracy: "He recognizes what has gone in the past will not work. It has changed management and reorganized. Those are things IBM didn't have the guts to do."

Palmer has also been much more aggressive than his predecessor in attacking costs. In the past two quarters, he cut a total of 13,000 jobs, and by June analysts expect the payroll to carry as few as 85,000 people, reflecting 15,000 more layoffs. A string of plant closings eventually will pare some 10 million square feet of excess office and manufacturing space, reversing a giddy mid-1980s building spree. In all, analysts expect Palmer's layoffs will cut more than $1 billion from annual salary expenses.

SOLO ACT. Most important for DEC's future, Palmer has successfully launched the Alpha AXP family of computers based on a RISC (reduced-instruction set computing) chip he oversaw as head of semiconductor manufacturing. These computers will eventually replace DEC's hugely successful but fading VAX line. Already, DEC has snared an Air Force contract for up to 2,500 Alpha AXP workstations. But it has yet to find a partner to help design future Alpha processors. And Alpha faces stiff competition from workstation market leaders Sun Microsystems Inc. and Hewlett-Packard, which countered with new, ultrafast RISC systems on the same day that DEC launched the Alpha AXPs.

Even as Palmer rebuilds around Alpha, analysts say, he has to start making deeper cuts in the old organization and the old DEC product line. So far the only product group that has fallen under the ax has been personal-computer software. A likely future candidate: "fail-safe" VAXft minis and a line of network servers.

As IBM's example teaches, the longer Palmer waits, the more painful the cuts will have to be. His first six months on the job have taught Palmer another lesson: Big bureaucracies always take longer to turn around than you think.

By Gary McWilliams in Boston

TWARE

OFTWARE FROM INDIA? ES, IT'S FOR REAL

acy is still rampant, but original products are finding a market

lsewhere, nobody would be impressed. But in India, it has been hailed as a breakthrough: The na-'s No. 1 software maker, Tata Con-ancy Services (TCS), in just one year 11,000 copies of E-X, a $140 account-program for personal computers. it was remarkable not only because st software in India—upwards of %—is obtained by illegal copying but o because it shows that the world's ond most populous nation may be be-ning to build a viable domestic soft-re market. That, in turn, puts India in position to begin competing in global tware markets in earnest.

'In the 1980s, the Western world only ew us for supplying cheap manpower software development overseas," 's Dewang Mehta, executive director the New Delhi-based National Associ-on of Software & Services Companies ASSCOM), a trade group. In the 1990s, success of such packages as E-X may lp change that perception. India's do-stic software market in 1992 grew by hearty 45%, to $112 million. This owth is helping India's 500 software uses hone their development and mar-ting skills at home so they can sell road. That's already starting: In 1992, ftware exports jumped 67%, to $144 llion. NASSCOM predicts software exports will rise to $350 million by 1995.

The export boom should gather more steam from new government incentives such as tax breaks and special duty-free export zones for software makers. If the growth keeps up, it will mean that India's 2.5 million computer and software professionals will have a better chance of advancing their careers without relocating abroad. And the 20,000 university-level computer science graduates and 12,000 computer trade school graduates that India turns out each year will have a better chance at landing jobs at home.

The emerging domestic market—and liberalized rules for joint-venture ownership—has also encouraged foreigners to expand their Indian operations. "India's real problem has been the lack of any domestic market," says Anoop Garg, director of software exports for Digital Equipment (India) Ltd. With the promise of local software sales, such multinationals will have more incentive to invest in Indian facilities, rather than simply import Indian programmers. DEC, IBM, and Hewlett-Packard rushed in when joint-venture ownership restrictions were loosened in 1991. Aided by development contracts from their U. S. parents, some of these ventures have become India's top software exporters (table).

But hometown favorite TCS is still the biggest. One reason: Because customers such as banks have built custom applications on top of its software packages, TCS is now able to pursue similar sales abroad. "Whenever TCS has bid for a project for a foreign bank, the question asked is: 'What work have you done for a domestic bank?' " says Pawan Kumar, a TCS vice-president in New Delhi. Now, he has an answer.

CATCHING UP. Still, Indian software makers have a long way to go. Despite the success of E-X, "piracy is the rule rather than the exception," says Kenneth A. Wasch, executive director of the Software Publishers Assn., a U. S.-based trade group. Popular programs such as Lotus 1-2-3 are rarely purchased legally, and a report by the Business Software Alliance, an international antipiracy group, says that India's computer users made $63 million worth of illegal copies of U. S.-developed software in 1991. The local market is also hampered by shoddy telecommunications, lack of proper quality control, bureaucratic roadblocks to hardware imports, and a meager population of just 1 million PCs.

But India's pluses are fast catching up to its minuses. The World Bank last year surveyed 150 prominent U. S. and European hardware and software manufacturers that ranked India's programmers as No. 1 out of eight countries for both on-site and offshore software development, ahead of Ireland, Israel, Mexico, and Singapore. Other pluses include the world's largest English-speaking population outside the U. S. and an average annual salary of about $3,000 for a skilled programmer. That's one reason why "producing quality software in India costs 40% to 50% less than what it would cost to develop in the U. S.," says Jack Epstein, chief operating officer at Parsippany (N. J.) market researcher InfoTech Consulting Inc. At those prices, India could very well shake off its timeworn image of snakes and spices and emerge as a land of software.

By Sunita Wadekar Bhargava in New Delhi

AINSTORMING AT TATA CONSULTANCY: LOCAL TALENT CAN NOW STAY HOME

INDIA'S TOP SOFTWARE EXPORTERS

	FISCAL 1992 EXPORT REVENUE MILLIONS OF DOLLARS
TATA CONSULTANCY SERVICES	$44.7
TATA UNISYS	14.7
DIGITAL EQUIPMENT (INDIA)	7.0
HCL HEWLETT-PACKARD	6.3
CITICORP OVERSEAS SOFTWARE	5.2

DATA: COMPANY REPORTS

AMERICAN INVENTORS ARE REINVENTING THEMSELVES

Tighter R&D budgets, foreign rivalry, and higher patent costs force innovators to learn new tricks

Christopher J. Nagel's dream is springing to life in an old helicopter-parts factory in Fall River, Mass., where technicians have just built four toxic-waste reactors that Nagel invented. Once the $8 million plant opens this month, the reactors will be able to douse tons of gunk each day in a 3,000F molten-metal bath. From environmental villains such as sludge and cyanide will come cadmium and lead for battery makers, iron and nickel for steelmakers, raw materials for the ceramics industry, and gases for chemicals makers. Almost no waste will remain, meaning Nagel's process could save billions of dollars and help protect planet earth. John Preston, who runs the Technology Licensing Office at the Massachusetts Institute of Technology, calls alumnus Nagel the school's "greatest inventor—on a scale of 10, he's the only one with a 13 invention."

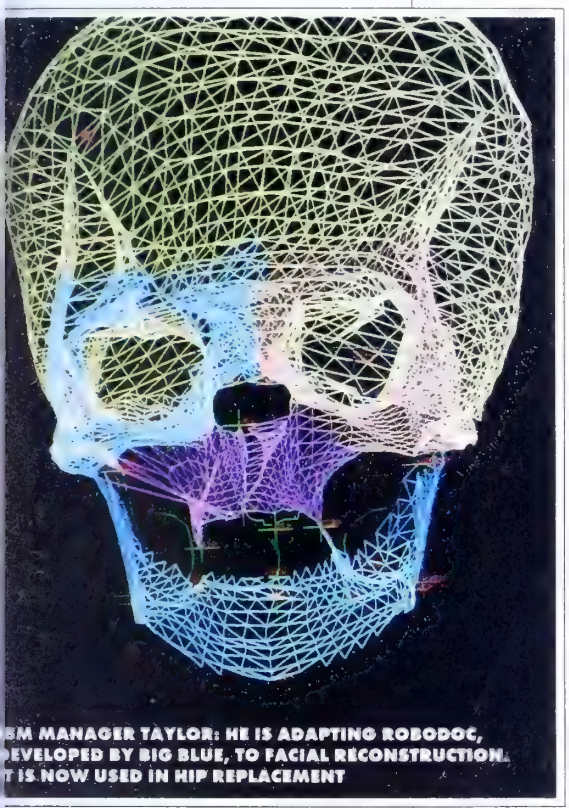
By making breakthroughs that led to new products and industries, thousands of inventors who preceded Nagel have helped make America an economic powerhouse. But today's would-be Thomas Edisons face new and potentially overwhelming obstacles. The vast majority of U. S. inventors work in corporate research and development centers, universities, or government labs, where budget constraints caused by a slow economy are being intensified by global competition. These institutions are cutting their inflation-adjusted research funding, sometimes a lot: Last month, IBM said it will trim its 1993 engineering and R&D budget by $1 billion, or 11%.

SQUEEZED OUT. Independent inventors, meanwhile, are getting hit by sharply higher fees the government is charging for filing and maintaining patents. And Congress is contemplating a radical change in the 200-year-old patent system that could add to the damage (page 8) "The little guy is getting squeezed ou says Washington patent attorney Don W. Banner, a former commissioner the U. S. Patent Office.

Now, these pressures are forcing in vators of every stripe to devise n methods for invention. For Corpor America, the challenge is to walk tightrope. R&D managers are having focus research more clearly on the s beyond invention—commercializing c coveries. Yet they dare not crimp cr tivity, although the conflict often is ha to avoid. "I want to still do fundamen research, but I also want people understand that they are doing it fo purpose," says Nobel laureate Arno Penzias, vice-president for research AT&T Bell Laboratories. As part o sweeping 1990 reorganization to acco plish that goal, he adds, "I said to eve one, if you don't like it, please leave.

O.R. PHOTOGRAPHS BY MICHAEL MELFORD (2); BRIAN SMITH

Nothing short of U. S. competitive-
ıs is riding on the outcome of such de-
ions. Foreign inventors now garner
ırly as many U. S. patents as Ameri-
ıs—45,331, or 47%, in 1991, up from
784, or 36%, in 1977. In August, the
tional Science Board warned that un-
; U. S. industry revs up R&D spending
l uses its funds more wisely, it will
perilously behind Japan and Germa-
in science and technology. Such calls
n't new. But they have been mount-
in recent months, highlighting what
ın A. Armstrong, IBM's vice-president
science and technology, calls "a na-
ıal sense of urgency."



BM MANAGER TAYLOR: HE IS ADAPTING ROBODOC, EVELOPED BY BIG BLUE, TO FACIAL RECONSTRUCTION. T IS NOW USED IN HIP REPLACEMENT

The difficulty in responding quickly
hat managing invention is an incred-
y intricate pursuit. Corporate labs of-
attack a problem with high-powered
ltidisciplinary teams. Yet even the
st ambitious efforts still depend on
talents of a few key individuals.
nly 5% to 10% of the people in a lab
the fuel that keeps it going," says
eg E. Blonder, head of the materials
l technology integration lab at Bell
bs. "You lose them, and the whole or-
ization goes." Indeed, an analysis of
laboratory at a major auto maker by
Research Inc. of Haddon Heights,
J., showed that 10% of the 30 re-
ırchers with patents produced 80% of
inventions.

B GRUNTS. Finding those key people
't easy, moreover, because far from
ng leading experts in a field, great in-
ntors typically cross disciplines. Of-
ı, it seems, it takes the fresh perspective of an outsider to solve a technical puzzle. Even then, major breakthroughs aren't always obvious. The idea that there's an instant of discovery—the "aha!"—is mostly a myth, says University of Virginia historian W. Bernard Carlson. For instance, the invention of the copier is usually traced to Oct. 22, 1938, the day inventor Chester Carlson, no relation to Bernard, put an electrostatic charge on a small steel mirror, pressed an imprint of some writing onto the plate, then transferred the writing onto paper. But Carlson says the inventor's notebooks show this was merely one of several options—which he didn't settle on until months later.

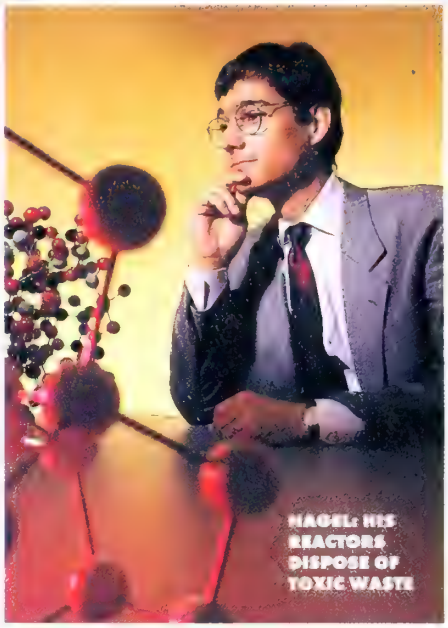
Myth or not, the magic moment is increasingly the goal, as corporate labs try to produce more usable work. For instance, inventor Edith M. Flanigen, a top researcher at UOP, a Union Carbide Corp. joint venture, often makes her scientists do their own initial lab work instead of letting them rely entirely on technicians. When an experiment goes in an unexpected direction, the researchers can figure out why right away. That's how Flanigen's team uncovered a new generation of materials that could be crucial in oil refining and chemical processing. "If [the scientists] hadn't been working in the lab, we would have missed it," says Flanigen (page 80).

The trick is to impose a tighter focus without undermining a lab's free-wheeling atmosphere. Even after its wrenching reorganization, Bell Labs still has some room for farsighted, creative souls, such as Alan Huang, who is still pursuing his dream of an all-optical computer, even though his superiors doubt the research will pay off for decades.

THE FACE OF INVENTION

	NUMBER OF U.S. PATENTS GRANTED 1981	1991
CORPORATIONS	27,189	35,029
INDEPENDENT INVENTORS	10,241	12,193
UNIVERSITIES	434	1,206
U.S. GOVERNMENT	1,115	1,180
OTHER	244	475
TOTAL U.S. ORIGIN	39,223	[illegible]
TOTAL FOREIGN ORIGIN	26,548	45,331
TOTAL PATENTS	65,771	[illegible]

DATA: U.S. PATENT OFFICE



NAGEL: HIS REACTORS DISPOSE OF TOXIC WASTE

Other labs are trying new approaches in order to channel research and boost morale. Two years ago, IBM's Almaden Research Center in San Jose, Calif., introduced annual innovation grants. Whoever has the best idea for a new project wins a research assistant for two years—bypassing departmental budgets. Physicist Gary M. McClelland won the first grant for a way to study the motions of atoms and molecules at extremely high speeds, which may one day be important in data transmission. Without the prize as a spur, his idea might still be gathering dust, he notes. For IBM, the payoff didn't stop there. Seven of the 30 also-rans have become active research projects through the normal channels.

BELLS AND WHISTLES. Another path to sparking creativity is to let scientists choose their area of pursuit from within a well-defined research framework. Such a program at Abbott Laboratories in Chicago attracted Robert J. Schilling in 1991, when he finished his doctorate at Purdue University. Schilling, co-winner of the 1992 B. F. Goodrich Collegiate Inventors Program award for discovering a way to administer insulin orally, settled on Abbott after considering eight other drugmakers. The key for him was the company's program for placing new hires in three eight-month rotations in different fields before they choose a specialty. "I don't know any other major pharmaceutical companies that do that," says the 30-year-old inventor.

Encouraging invention is only the first step in innovation, however. Corporate histories are replete with good ideas that languished on the shelf: computer interfaces at Xerox, liquid-crystal displays at RCA, and superfast reduced instruction-set computing (RISC) chips at

IBM. Such oversights are to some extent unavoidable, if only because once an industry matures there's a tendency to think the big inventions have already been made and to focus instead on small improvements. Beyond that, "any breakthrough invention leaves people skeptical," says Bell Labs President John S. Mayo. "I don't see that stopping."

HIP ROBOTICS. It's possible, though, to avoid the misjudgments that bureaucratic sclerosis can cause. After its early mistake with RISC—which took the inventors three years to sell to management—IBM responded more positively to a new idea several years later. Robotics specialists, working with University of California at Davis researchers, came up with a computerized surgical device that didn't fit into Big Blue's business. When it was ready for development, in 1990, IBM acted as venture capitalist to set up a separate company, Sacramento-based Integrated Surgical Systems, to funnel medical technology to market.

Since December, ISS has used Robodoc, as the device is called, to replace hips in seven patients. Russell H. Taylor, IBM's manager of Robotics & Augmentation Research and one of the team that produced the robosurgeon, is now adapting it to the more daunting task of facial reconstruction. The system, he says, should have far greater precision than human surgeons can manage.

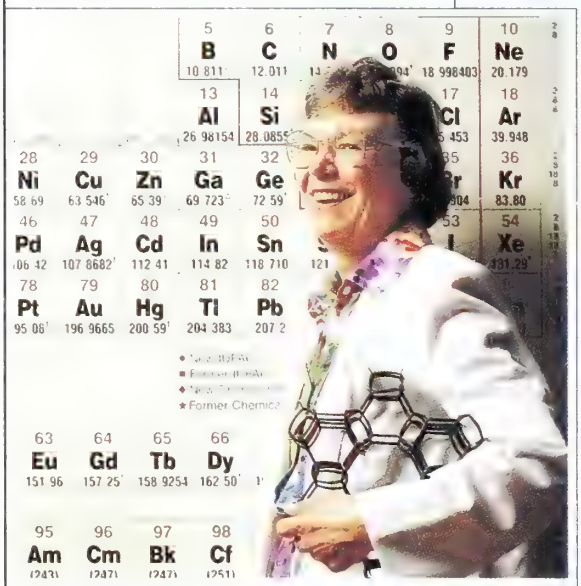
As companies push to make invention more efficient, they're also teaming inventors with product designers and marketers—a practice called concurrent development. Schering-Plough Corp., for instance, now launches toxicity studies on a new drug before it knows the compound will work. This is costly if the drug flops, concedes Frank J. Bullock, senior vice-president for research. But it can get products to market three years sooner. Bell Labs made concurrent development a key part of its reorganization. Today, 500 of its 1,200 researchers are involved in joint projects with development engineers—up from 250 in 1991.

'NO COUPLING.' Many experts worry that taking this too far could still the creative impulses that led to such grand slams as the transistor, the computer, and recombinant DNA. To avoid that, such companies as Motorola Inc. and Corning Inc. fund "the big-hit innovations as well as more continuous improvements," says Joseph G. Morone, professor of management and director at the Center for Science & Technology Policy at the Rensselaer Polytechnic Institute in Troy, N.Y. Getting this balance right is tough, Morone adds: "There is always a war inside companies." Still, a compromise usually is possible. After 10 years in basic research, Bell Labs physicist Gregg S. Higashi is sharing his work on the surface properties of silicon with engineers who are trying to devise better cleaning methods for chips during the manufacturing process. "If basic researchers have no understanding of what's going on in manufacturing, there is no coupling," observes Higashi.

Like their corporate counterparts, some major universities and government labs are giving more attention to managing innovation. Many schools have set technology-transfer offices to aid inv tors. When plastic surgeon Leroy Yo and four others at Washington Univ sity in St. Louis invented a new bre implant made of vegetable oil, t school's venture-capital arm filed t patent—and last February helped forn spin-off, LipoMatrix Inc., to devel the device. "The average doctor d not know how to apply for a pate let alone form a company, obser

THE CASE OF THE CATALYTIC CHEMIST

Edith M. Flanigen chuckled when she got word in October, 1991, that she was the first woman to win the Perkin Medal, America's top honor in applied chemistry: The notice told her to don tails and a bow tie for the awards dinner. Flanigen, who has 92 patents, took it in stride. After all, she was already listed in *American Men in Science*.



FLANIGEN'S STYLE OF INVENTION GALVANIZES HER LAB

The Perkin recognized Flanigen's 40 years of work, much of it at the Union Carbide Corp. research complex in Tarrytown, N.Y., and in particular her lab's discovery of a new generation of compounds in a class of materials called molecular sieves. These materials may improve everything from oil refining to petrochemical processing. So important are they, in fact, that in 1988, Union Carbide and AlliedSignal Inc. formed a joint venture, UOP, partly to develop them. "It's an unbelievably emotional thing to find a new material," says Flanigen, whose team ha turned up nearly 200 such compound

Flanigen attributes much of her su cess to a style of invention that othe labs are starting to adopt. After brai storming with her fellow researcher she consolidates the group's ideas int a range of options and takes a vote o which ones to follow. The team usuall opts for just a few goals. The vote "a critical strategy in ge ting the total commitmen of everyone," Flanige says. It wasn't until 199 when consultants cam spreading the gospel of t tal quality managemen that she learned her ap proach had a name.

SISTER ACT. Chemistr seemed to be in Flanigen blood from the start. Sh graduated magna cu laude from D'Youville Co lege in her hometown Buffalo, took a master's de gree in chemistry at Syr cuse University, then i 1952 joined her older si ter as a chemist at the Un ion Carbide research ce ter in Tonawanda, N.Y. third Flanigen sister signe up a year later.

As her sisters left to raise familie Flanigen streaked up the ranks. Mat rials appeared in her wake—things lik zeolites, silica adsorbents, even a sy thetic emerald. In 1960, she w named senior research chemist. I 1982, she became the first woman t reach Union Carbide's top technic post—senior corporate research fello At 63, she isn't slowing down. Apol gizing for being late to an intervie she cheerfully explains: "I just disco ered another new material."

By Robert Buderi in Tarrytown, N.

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Young. Schools are benefiting, too. University patents jumped from 434 in 1981, to 1,306 in 1991. The Government Accounting Office reports that 35 schools took in a total of $113 million in royalties for fiscal years 1989 and 1990.

Argonne National Laboratory, meanwhile, has set up a similar technology-transfer office—and spun off 31 companies since 1984. The Chicago-area lab now pays researchers 25% of gross royalties on their inventions. And it evaluates research managers partly on how well they help transfer technology from lab to private industry.

Only lone-wolf inventors, it seems, are left to their own devices. And these individuals, who have gathered a steady 15% of U. S. patents for a decade, face threats on several fronts. To raise revenue, the government has hiked fees for filing and maintaining a single patent over its 17-year life to $3,750—vs. $165 in 1981. Legal fees for patents that are contested can run to six-figure sums heavy load for both individual invent and small companies. The spiraling c of advanced technology is anot formidable problem. America's most p lific living inventor, Jerome H. Lemels who lives near Lake Tahoe, Nev., s that it may take $30,000 to build a m el of a new machine and $120,000 test it. If someone else works a bit f er, says Lemelson, "all that money down the tubes."

Solo inventors could be even wo off if Congress, as proposed, revan the patent system to approve the plication of whoever files first, instea always choosing the inventor who c ceived the idea. If that revision is proved, Lemelson argues, the race often go not to the fleetest, but to one with the most resources (box). "If wants more jobs, Clinton has to enco age small inventors, small business," es Banner.

CREATIVE 'VESUVIUS.' To survive, in pendent inventors are forming self-h groups. Most metropolitan areas h such organizations, which offer adv on patenting, copyright protection, censing, and selling. The United Inv tors Assn. of the U. S. A. in St. Lo counts 480 such groups in the U. S. Canada, up from 28 in 1986.

Among those who can use help women and minorities. Indeed, it's to to overcome the stereotype of invent as white males, says Anne L. Macd ald, whose book *Feminine Ingenu* tracks the travails of women invent Frances Christian Gaskin knows t "I didn't know you were black," one credulous marketing manager told h A registered nurse who holds a do rate in education, Gaskin has inven cosmetic hand creams, lotions, and o ments that use melanin, the body's n ural defense against the sun. Two ye of trying couldn't land her a licens deal. So, with her husband and t sons, she has formed Frances Christ Gaskin Inc. in Brooklyn, N.Y., to ma and market her creams.

Gaskin is following a well-trod path. America has always been bles with what Raymond V. Damadian, ventor of the magnetic-resonance-im ing scanner, calls "a Vesuvius of sp and creativity." No one suggests t outpouring is waning. The concern how to make better use of it. By look of things, a new framework for vention is evolving that may do tha and help refire the country's econo engines.

By Robert Buderi in Fall River, Ma with John Carey in Washington, Otis P in New York, Julia Flynn in Chica and Joseph Weber in Philadelphia

A PLEA FOR THE SOLO INVENTOR

Gazing out over Lake Tahoe from the deck of his mountainside cabin, Jerome H. Lemelson offers a bittersweet assessment of his 40 years as an independent inventor. In 1992, he reaped a huge payoff: His 500-odd patents earned more than $200 million in royalties from makers of computers, cars, consumer electronics, and industrial equipment. The contrast with his income just a few years ago, he says, "is like night and day."

Still, his thrill of success is tempered by apprehension over how those following in his footsteps will fare. Lemelson, who holds more U. S. patents than any inventor except Thomas A. Edison and Edwin H. Land, is disturbed particularly by a proposal, introduced in Congress last April, to model the U. S. patent system after those in Japan and Europe. There, patents are awarded to the first to file—not always to the first to invent, as the U. S. Patent Office has done since the 1700s. Under the first-to-file system, the earliest application wins, even if someone else was working on the idea first.

LEMELSON FEARS A SHIFT TO FIRST-TO-FILE PATENTS

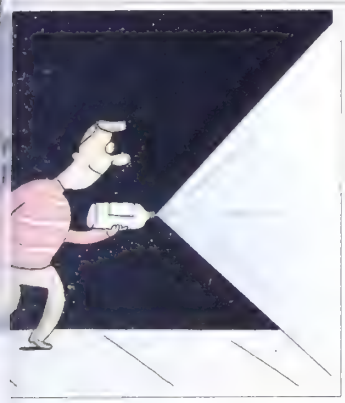
BIG CHILL? This approach helps assure that new ideas enter a country's technology storehouse quickly. And were the U. S. to adopt it, the world's patent systems would come into harmony. Moreover, most of the lengthy, expensive court disputes that often ensnare U. S. patents might be avoided. But for Lemelson, these benefits would not offset what he sees as a raft of negatives. Such a change would unleash a flood of abuse, he fears. Deep-pocketed companies might file blizzards of secondary patents. This in turn could bury individuals who couldn't afford to compete because of sharply rising fees for filing and maintaining patents. "First-to-file will be about the last nail in the coffin for individual inventors," Lemelson believes.

He also thinks U. S. innovation would suffer a setback. Foreign competitors would have more incentive to steal American ideas. So, corporate researchers and university scientists might become much less open. That would blunt the traditional sharing that has helped make the U. S. a fountain of ideas. "This issue threatens not just private inventors, but the entire American economy," Lemelson insists. So at the age of 69, he plans to lobby vigorously against big changes in patent law. He, at least, has the means to do it.

By Otis Port in New York

) BY PETER COY

'LASTIC PALETTE R CHEAPER, SAFER LAPTOPS



Two years ago, scientists at England's Cambridge University discovered plastics that emit green light when electrified. The finding raised hopes that cheap plastics could replace the expensive and toxic compounds, such as gallium arsenide, that are used to make flat-panel color displays for laptop computers. Now, the next step may be at hand. Re-chers at the University of Massachusetts at Amherst have e up with a plastic that can be "tuned" to emit light of ing colors, which is critical for color displays.

ıeir plastic, a type of poly p-phenylene vinylene, is a so-d conjugated polymer that combines easily with other tics. That makes it possible to design plastics that emit ıw, green, and even exotic blue light. UMass polymer scien- Frank Karasz says the plastic is easily converted into ıthin sheets. Thin films are prized because they release ; at lower voltages than thicker materials require.

AGNETIC BEARINGS THAT CAN KE THE HEAT

agnetic bearings are an engineer's dream: Because they hold a rotating shaft suspended in space, they do away ı the need for ball bearings, lubricants, and the like. More-', precise electronic controls can dampen vibrations that the efficiency and shorten the life of machinery. But most ;netic bearings rely on magnets that work only when ered by electrical current, so they're bulky power hogs.

ow, Avcon-Advanced Controls Technology Inc. in North-'e, Calif., is making bearings built primarily out of power-'permanent" magnets. They're made of neodymium, boron, iron—the same materials used in the magnets in videocas-e recorders. Avcon is developing the technology under ırch contracts with the U. S. Air Force and United Tech-ıgies Corp.'s Pratt & Whitney Aircraft Co.

ne knock against permanent magnets is that they lose r magnetism at the high temperatures found in the high-performance aircraft engines. But Avcon thinks it has that ɔlem licked, too. For the Air Force, which demands that ;nets work at a minimum of 800F, it's testing samarium alt magnets from Electron Energy Corp. in Landisville, Pa., : it believes will meet the Air Force's demands.

IN PATCHING UP GENES P CANCER IN THE BUD?

'cientists struggling against cancer have learned that it is typically caused by damage to DNA—genetic material—hin cells. Cells with damaged DNA divide uncontrollably, ming tumors and spreading throughout the body. In con-tional radiation or drug therapies, the idea is to kill all of se cells. But researchers are also pursuing a more ingenious approach. The body can fix some DNA damage, at least in some organs and cell types. Scientists want to harness that natural repair process to fix DNA damage before it triggers carcinoma.

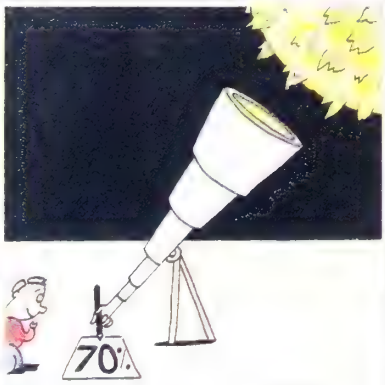
Now, researchers at Case Western Reserve University School of Medicine have succeeded. They slipped into mice a gene that codes for a DNA-repair enzyme, creating animals that make up to 80 times the natural levels of the enzyme. Then, they dosed the mice with a chemical known to damage DNA and cause lymphoma. Mice without the gene quickly contracted the cancer, noted a report in the Jan. 8 issue of *Science*, while those with the gene were protected. Brown University's Luba L. Dumenco, who worked on the study, suggests that the same general gene-therapy approach could be used in people to repair DNA damage caused by chemotherapy—or even to prevent cancer in the first place.

LANGUAGE SOFTWARE TO SPEED ASIA'S ECONOMIC JUGGERNAUT

The Japanese have done a brilliant job of building economic bases throughout Southeast Asia. But learning local languages has been torture. Now, with advances in machine translation, Japan's Ministry of International Trade & Industry hopes to make that easier.

Since 1987, researchers at a MITI-affiliated laboratory have worked with Japan's top three computer companies to develop software that can translate technical documents from or into Japanese, Chinese, and the main languages of Thailand, Malaysia, and Indonesia. Bankrolled by Japan's hefty Official Development Assistance budget, Fujitsu, Hitachi, and NEC have completed basic translation software and compiled a lexicon of about 75,000 words. Their systems, which run on workstations from all three companies, strip down target sentences, eliminating honorifics and other nonessential data. The bare-bones information is then translated into similar form in the target language, then reconstructed into sentences. The systems are being tested in laboratories in each country.

MORE RELIABLE EARLY WARNING OF SOLAR STORMS



Storms on the sun can wreak havoc on earth by disturbing its geomagnetic field. Blasts of current can trip electric utilities' circuit breakers or melt transformers. If they're warned, utilities can start backup power to make outages less harmful. But backup power is expensive—and false alarms are frequent.

Now, the National Oceanic & Atmospheric Administration's Space Environment Services Center in Boulder, Colo., has prepared software that helps scientists state the level of confidence they have in their predictions. That way, utilities and others can better decide when it's worth the expense to ready backup systems. Utilities expect major improvement in the iffy system in 1997, when NASA plans to launch a satellite that will hover in a gravity "well" 1 million miles from earth and send warnings an hour before solar storms hit.

EDITED BY AMY DUNKIN

Planning

BEFORE YOU TRUST IN A LIVING TRUST

Living trusts are quite the fashion these days, and little wonder, with America's by-now-ingrained fear of probate. But beware: They are hardly a cure-all for estate planning, as some promoters suggest.

With a revocable living trust, the most popular kind, title to your assets is taken out of your name, so you technically own nothing. Then, at death, your estate neatly bypasses probate. Despite the legal transfer, you retain control of the assets and the right to use them any way you choose. As the name implies, a revocable trust can be dissolved at any time.

STARTUP COSTS. But for most people, a will, properly drawn, can provide most of the advantages of a living trust with far less bother. For one thing, trusts can be expensive to set up, especially since you might well choose to retain a lawyer. Upfront expenses typically start at $1,000 just to prepare the trust documents, and some financial planners have been known to charge fees approaching $10,000. And the costs don't stop there. Hundreds more must be spent on changing title of all your assets—house, bank accounts, and such—to the trust.

Trusts must also be administered. If you do it yourself, it can mean lots of extra paperwork. You may be required to make tax and other filings, and you must keep any business or investment activities for the trust separate from other transactions in your name. If you use an outside administrator, such as a bank, you'll pay a percentage of your assets each year for that luxury.

A trust is not necessarily a substitute for a will. Since it's not uncommon for assets to get inadvertently left out of the trust, you'll at least need a so-called pour-over will that transfers all assets to the trust. Otherwise, any unassigned assets will go to probate anyway. If the estate is complicated, requiring a bevy of lawyers and accountants, it can take just as long to settle as a will in probate.

Trusts do make sense in states where probate can be costly and time-consuming. But that's only in about a third of the states, including New York and much of New England, says John Langbein, a law professor at Yale University. Probate elsewhere is often inexpensive and largely hassle-free. That's because about 15 states have adopted the Uniform Probate Code, which so simplifies the process that it can often be done informally, without a lawyer or court appearances. And the remaining states use comparable procedures, having abolished at least the more onerous requirements of the past, such as automatically granting probate lawyers a percentage of the estate as their fee. "Where lawyers [illegible] involved [in probating an [illegible]tate], the amount at st[illegible] really increases," obser[illegible] Theresa Meehan Rudy, [illegible]search director at HALT, a [illegible]gal-reform group based [illegible] Washington.

A little forethought can [illegible]ther reduce the pain of [illegible]bate. As the law works, [illegible] those possessions left in a [illegible] are subject to probate; al[illegible]sets that are jointly held [illegible] right of survivorship, suc[illegible] houses and bank accounts [illegible] have designated heirs [illegible] death, such as individual [illegible]tirement accounts, bypass [illegible]bate entirely. And s[illegible] states—New Mexico [illegible] North Dakota among se[illegible] so far—are adopting laws [illegible] allow securities to be tr[illegible]ferred directly to benefi[illegible]ies on death. [illegible]ceivably, the[illegible] well-structu[illegible] will would le[illegible] only odds and e[illegible] such as clothing [illegible] household effects, for prob[illegible]

Contrary to popular be[illegible] and to what many pro[illegible]ers would have us bel[illegible] a living trust does [illegible] avoid inheritance ta[illegible] federal or local. "You're [illegible] getting out of taxes at [illegible] says John Donaldson, a [illegible] professor at the Colleg[illegible] William and Mary. "Ther[illegible]vocable trust is not a tax a[illegible]ings device. Nothing ca[illegible] done to save taxes that [illegible] be done with a will."

PLAN AHEAD. Rather, tax a[illegible]ing comes from smart p[illegible]ning. And all but the wea[illegible]est should be able to a[illegible] federal taxes entirely, u[illegible] either a will or a trust. U[illegible] a series of reforms that [illegible]gan in the 1970s, no fed[illegible] tax is paid on estates u[illegible] $600,000, and there are [illegible]

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ıctions. With an estate of,
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PROVIDING FOR YOUR HEIRS

A will makes sense in two-thirds of the states that have adopted the uniform probate code or similar legislation making probate a simple and relatively inexpensive process. A living trust may be a good idea:

- In the remaining third of the states where probate can be costly and time-consuming
- When property is held in several states
- When the person who owns the assets is at risk of becoming incapacitated
- When you want to keep the terms secret
- When you're worried about a will being contested

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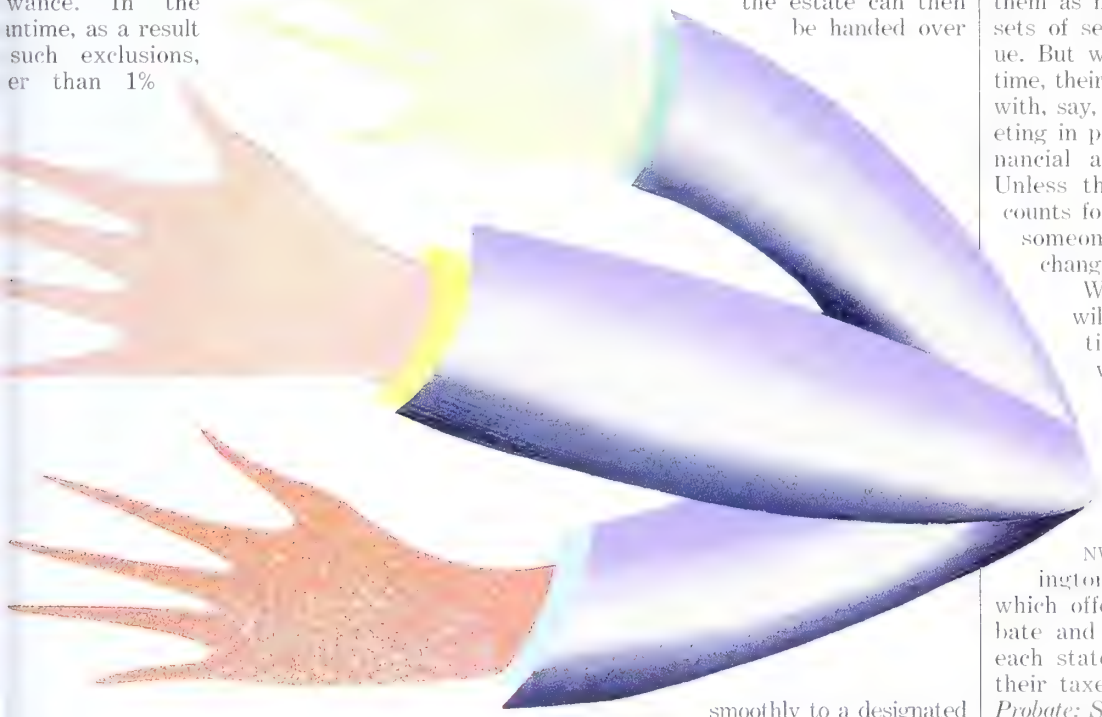

federal inheritance taxes
lay, says William and
ry's Donaldson, compared
h 8% in 1976, when the ba-
deduction was just $60,000.
Whether you pay state tax-
es depends on where you live. Many states levy none; others may charge either a tax against the entire estate or an inheritance tax against each heir's share. Again, it doesn't matter whether there is a will or a trust.

Despite all the drawbacks, sometimes good reasons exist for setting up a trust. They are practical devices when property is held in several states. In such cases, without a trust, a will must be filed and probated in each state. Trusts also have the advantage of being secret, unlike wills, which must be filed with the court for public view. And trusts are harder to challenge, so they might make sense for someone who fears a squabble among heirs. Trusts also make sense for anybody who becomes incapacitated. Management of the estate can then be handed over smoothly to a designated trustee.

A slew of books and computer programs are on the market advising consumers how to draw up their own will or living trust. Nolo Press based in Berkeley, Calif., is a leader in this area. One of its most popular self-help books, *Plan Your Estate with a Living Trust* ($19.95), provides all the information and forms you need to create a living trust or a will. Or, you can get the same material from two separate software programs: WillMaker 4.0 ($69.95) and Nolo's Living Trust ($79.95).

But even critics of the probate system, such as HALT, recommend that a lawyer at least look over what you prepare. If the estate is of any size or complexity, leave the work entirely to a lawyer. A good practitioner will ensure that the estate isn't suddenly thrown into disorder as a result of an unforeseen event, such as the death of a child. "Probate avoidance is not lawyer avoidance," says Yale's Langbein.

FAIRER SHARES. A well-crafted estate plan reduces the chance of a grantor's intentions not getting carried out. For example, a father who wants all his children treated equally may name each of them as heirs to specific assets of seemingly equal value. But with the passage of time, their values can change, with, say, the house skyrocketing in price and various financial accounts tumbling. Unless the estate plan accounts for such possibilities, someone may be shortchanged.

Whether you pick a will or a trust may ultimately depend on where you live. Your lawyer can advise you on probate in your state, or you can send away to HALT (1319 F St. NW, Suite 300, Washington, D.C., 20004), which offers guides on probate and trusts that detail each state's laws, including their taxes. One HALT title: *Probate: Settling an Estate: A Step-by-Step Guide* (Random House; $8.95).

Whatever instrument you choose, keep it simple. Too-fancy an estate scheme could haunt your heirs long after you're gone. *E. S. Ely*

Smart Money

WHEN THE HEART SAYS 'INVEST IN ISRAEL'

They are among the most heavily hyped investments anywhere. Bought primarily for sentimental reasons, some $1.2 billion worth were sold in 1992—with some redeemable only in airplane tickets or the currency of a war-torn, debt-laden nation. A questionable investment? Not in the least. These are State of Israel bonds—and, for yield-starved investors, they are a perfectly respectable way of obtaining a safe but attractive payout.

True, there are better investments—by a long shot. But if you cotton to Israel, its bonds are a way of demonstrating support while enjoying healthy rates of return—as high as 6.6%. And since the bonds are dollar-denominated, there is no currency risk, even if you buy one of the two issues redeemable in shekels. (The proceeds are converted into shekels only when you redeem them.) "People and institutions buy these bonds to participate in what Israel is doing and to enjoy reasonably competitive rates of return," says Saul Freedman, director of institutional sales for Israel bonds.

But competitive with what? The Israeli-bond people prefer to compare the yields with certificates of deposit. But bond investors generally look at the yield of other bonds with comparable ratings and maturities. By that criterion, Israel bonds come up short. Israel has never requested a formal rating, but Standard & Poor's has given the nation an implicit BBB−, the lowest investment grade. By contrast, Government of Quebec Eurodollar bonds maturing in 2001 and rated AA− by S&P pay 7.5%. That's a full percentage point higher than Israeli bonds with similar maturities. And BBB-rated U. S. corporate issues yield 8.5% or better. Another drawback is that there is no secondary market for Israeli bonds. You're stuck with them till maturity. No problem there: Through thick and thin, Israel has never defaulted.

So you won't get rich from Israeli bonds. But if you are still thinking about buying them, that probably doesn't matter. The most appealing is the zero-coupon bond, which can be had for as little as $3,384 and pays 6.6% interest. To save on brokerage commissions, buy directly from the Israeli bond office in New York (800 229-9650). Avoid the current-income bonds and $250 certificates, both aimed at small-fry investors. Their yields are paltry, they are payable only in Israeli currency or El Al tickets, and their maturities would try the patience of—well, Job. *Gary Weiss*

ISRAEL BONDS IN A NUTSHELL

Issue/Minimum	Yield	Maturity
ECONOMIC DEVELOPMENT $25,000	6.5%	2002
ZERO-COUPON BOND $3,384*	6.6	2001
INDIVIDUAL VARIABLE RATE $2,000 ($2,500 for IRAs)	5.5*	2005
CURRENT INCOME $500**	4.0	2007
$250 CERTIFICATE $250**	Varies	1997

*Through March 1993
**Redeemable for Israeli currency, El Al tickets ($250 certificate)
DATA: STATE OF ISRAEL BONDS

Phones

COMB YOUR HAIR, HONEY —IT'S FOR YOU

For years, researchers have been trying to develop a phone that can send your picture along with your voice. Trouble is, the wires that carry most phone calls don't have the space to beam a really good picture. That generally requires special lines with extra bandwidth and costly hardware.

Now, though, video phones are on the verge of hitting the mass market. The price of AT&T's first model, the VideoPhone 2500, now available through retail outlets, has just been lowered from $1,500 to $1,000. And MCI is set to begin selling a $750 version, made by GEC-Marconi in London (800 274-5962).

Both phones use video-compression technology, which enables pictures to be sent over regular lines. All you do is plug the phones into a standard RJ-11 jack that transmits analog signals.

LIP-SYNCHED. Despite a big price difference, the two models are quite similar. Both have speakerphones and color screens, and the picture quality is good but not great. Compared with TVs, which repaint the screen at 30 frames a second, the phones work slowly: The result is a jerky, fuzzy picture. You can improve the quality by sitting in a brightly-lit room. Also, make sure the light is not coming from behind you— erwise, you may appear screen simply as a dark b

Making a call with the eo phone is a snap, but ting the image on the scr takes practice. First, must compose the picture your end while the other son does the same. Then, both must push the video ton simultaneously. For v calls, the AT&T and MCI sions are incompatible; t run on different software

The AT&T phone lets adjust the focus. But as sharpen the picture, the tion becomes jerkier. M version has software tries to synchronize w with pictures. And it lets see your own picture in a ner of the screen as you at the other speaker. AT phone has self-viewing c bility, too, but you can't u while watching the incom image.

The demand for v phones is likely to be lim at first because of the h price tag. But prices are ping. AT&T and MCI think phones will appeal to a v ty of groups: grandpar whose grandchildren liv away and the hearing paired, who could use it sign language. But for only gadget junkies w consider video phones w all that money. *Mark L*

NOW DISAPPEARING AT A LOCATION NEAR YOU.

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These sea otters were once on the brink of extinction. They are doing better now, but hundreds of other species are in trouble.

Since 1951, The Nature Conservancy has protected millions of acres of habitat for threatened species in all 50 states. And in a novel way—we've bought it.

A good job . . . but not good enough. Time is running out. Whole species are vanishing every day.

So join us. Write The Nature Conservancy, Box CD0021, 1815 N. Lynn Street, Arlington, VA 22209. Or call 1-800-628-6860.

The Nature Conservancy

Conservation Through Private Action

Original concept courtesy of Lewis & Partners, San Francisco

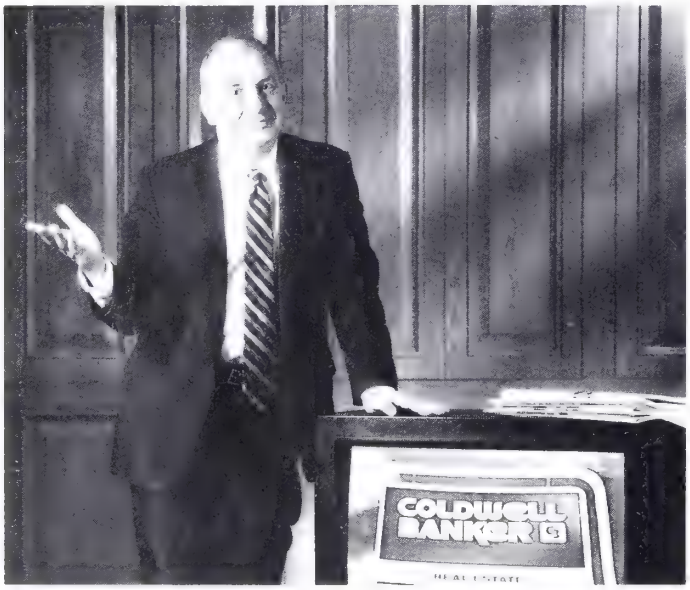
88A-PAC

"Some people in business believe that when customers stop buying, it's time to stop advertising. That certainly was the situation in real estate. Especially last year, when buyers were frozen in their tracks. Which prompted sellers to put plans on hold.

"Last year was one of the worst ever for real estate. It was also the best we ever had. You figure it out."

We could have waited, too. But an extraordinary aspect of good advertising is how it makes things happen.

Coldwell Banker knew a buyer's market meant it was a great time to buy. So we took our point of view to the public. We didn't try to sugar-coat anything. We just told the truth about the opportunities in real estate to buyers and sellers alike.



Chandler Barton, Chairman and CEO, Coldwell Banker Residential Group

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So while our competition was bemoaning the state of the economy, Coldwell Banker name awareness made its biggest jump ever. And, better yet, we had our most profitable year in our 85 year history.

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WSAAA *Western States Advertising Agencies Association, Inc.*

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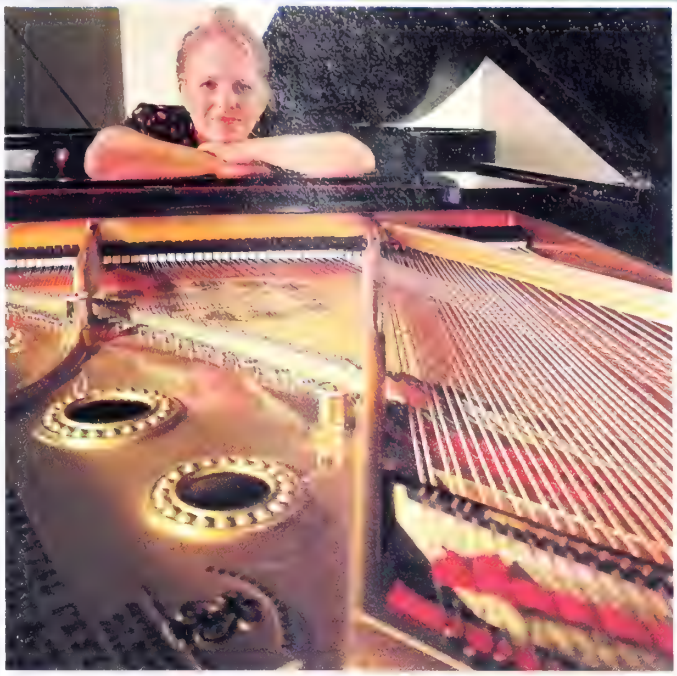
88B-PAC

Music

IYING A USED EINWAY? FEW NOTES

|or more than a century, Steinway pianos have captivated musicians their touch and rich . Prices are rich, too: nway's smallest baby d sells for $23,900. ut you needn't pay that h to get your hands on a rb instrument. Many of most beautiful Steinways made are now more than ears old and, even after oration, sell for consider- less than new ones. e musicians contend that r pianos are preferable. is Gibson, an artist-in-res- ce at the University of inia, chose five restored ways for the school's mu- department. The pianos "a more beautiful, sing- sound," she says. "Some ple describe it as a sound more soul."

DEN YEARS? Many of the Steinways were pro- ed between 1890 1930, say fans of older instruments. hard to pin down why such magic ted during that od, but restorer a Faust of Faust nos in Irvington, ., believes it was combination of tsmanship and erials. The harp, flat part of the -iron frame that ns the heart of a no, was "virtually fect, the woods t were used for case were beauti- and the construc- and the care that t into it—everything—was lly right on the money," says. A refurbished Stein- generally sells for 25% 30% less than a new one. st sells a fully rebuilt del M Steinway—a baby nd that measures 5 ft., 7 in. from the keyboard to the back—for $19,000, vs. $27,400 for a new one from Steinway.



SARA FAUST SWEARS THERE'S NO STEINWAY LIKE AN OLD STEINWAY

The folks at Steinway say the belief that older instruments are better is "an old canard," but a spokesman admits it's one "we're accustomed to hearing." Steinway has a factory restoration center in Long Island City, N.Y., that refurbishes pianos for customers who bring them in (718 204-3175).

RESTORATION CAN RUN FROM $1,000 TO $15,000

At anywhere from $1,000 to $15,000, restoration is expensive and can cost more than a piano is worth if it's not a great instrument to begin with. But Steinways aren't the only pianos worth restoring. Experts say Mason & Hamlin also produced many fine pianos in the early decades of the century, as did Knabe.

The simplest way to find a good instrument is to go directly to a restorer or a dealer who sells rebuilt pianos. Most should have instruments in stock and can also contact customers as others are available.

People willing to invest some energy and who want to save money can also scout out instruments themselves and then take them in for restoration. Check out newspaper ads, attend estate sales, or visit local auctions. Many of the pianos on sale will be junk. But a lucky looker can snap up a dusty old family piano that turns out to be a fine vintage instrument—and goes for just a few thousand dollars. If it's a Steinway, you can learn the age of the piano by checking the serial number on the cast iron plate inside the piano with the company. Before putting down money, it makes sense to pay a local piano technician to have a look inside the instrument to make sure there are no defects, such as a cracked plate, that would make restoration impossible. The expert should also be able to provide a rough estimate of how much work would be required and the cost. Any reputable musical instrument store can recommend a technician.

GUT REHABS. The key to acquiring a beautiful instrument is finding a top-notch restorer. There is no guild to certify such people, and anyone who puts in new strings can claim to be a professional. A true restoration can involve replacing the action, or moving parts, inside the instrument, putting in a new pinblock or new strings, rebronzing the iron plate, and refinishing the piano case. And if it's a Steinway, make sure the restorer uses Steinway replacement parts. Before hiring anyone, ask for referrals, particularly for ones from such professional clientele as major universities, concert artists, and local symphonies. Then try and get a look at some pianos the person has worked on.

Once it has been restored, a piano should look and feel as though it were new—and with maintenance should last a lifetime, says Faust. By that time, your grandchildren will be able to restore it all over again. *Andrea Rothman*

Worth Noting

■ **GOOD EATS.** Zagat Survey has assembled the best entries from its city restaurant guides in two volumes, *America's Top Restaurants* and *America's Best Value Restaurants*. In bookstores at $12.95 each, or call 800 333-3421.

■ **GIVEBACK TIME.** People who took home more, after income tax withholding was reduced last March, will pay up this April with a smaller refund or a bigger tax bill. Singles earning up to $53,000 and couples making up to $93,000 are affected. The IRS says they might take fewer withholding exemptions in 1993.

AN OFFER WORTH THE PAPER IT'S PRINTED ON.

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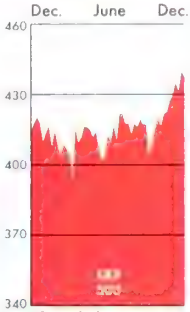
nvestment Figures of the Week

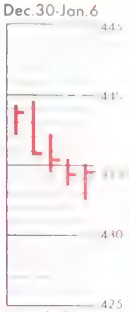
MENTARY

ock market began the year
whimper. The Dow Jones in-
al average rang in 1993 by
g up 8 points, to 3309, on
Stocks retreated during the
eding two days. One reason
e malaise was the chronically
ny performance of IBM,
continued to slide as in-
s wagered that a dividend
in the offing. But small
—which traditionally do well
uary—rose slightly as the
tumbled. Growth-stock funds
e mutual fund rankings.

STOCKS

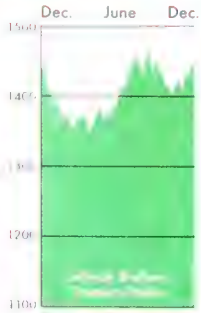


52-week change
+3.9%

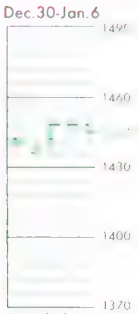


1-week change
−0.8%

BONDS

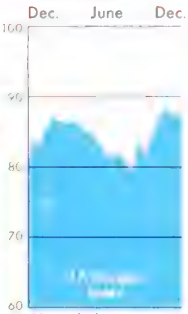


52-week change
0.0%

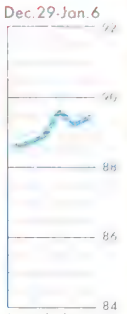


1-week change
+0.1%

THE DOLLAR



52-week change
+10.1%



1-week change
+0.9%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3305.2	−0.2	3.2
ZE COMPANIES (S&P MidCap Index)	159.2	0.2	6.7
L COMPANIES (Russell 2000)	221.6	2.2	11.9
OMPANIES (Russell 3000)	249.0	−0.4	5.5

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	2826.0	−0.8	14.5
D (NIKKEI INDEX)	16,782.9	−2.9	−26.1
NTO (TSE COMPOSITE)	3353.0	1.2	−4.6

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.16%	3.25%	3.83%
30-YEAR TREASURY BOND YIELD	7.35%	7.36%	7.40%
S&P 500 DIVIDEND YIELD	2.91%	2.82%	2.98%
S&P 500 PRICE/EARNINGS RATIO	19.9	24.3	21.4

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	421.4	420.3	Positive
Stocks above 26-week moving average	64.6%	58.9%	Neutral
Speculative sentiment: Put/call ratio	0.34	0.35	Neutral
Insider sentiment: Vickers sell/buy ratio	2.63	2.56	Negative

DUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

R-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
ROSPACE AND DEFENSE	9.0	3.2	BOEING	14.7	−15.1	40
STRUMENTATION	7.8	22.3	HEWLETT-PACKARD	8.9	24.2	70
ETAL AND GLASS CONTAINERS	7.3	22.1	CROWN CORK & SEAL	8.4	33.3	40 3/8
NG-DISTANCE TELECOMMUNICATIONS	7.3	27.8	AT&T	8.2	29.7	51 3/8
EEL	7.1	30.4	USX-U.S. STEEL GROUP	9.8	22.4	33 1/2

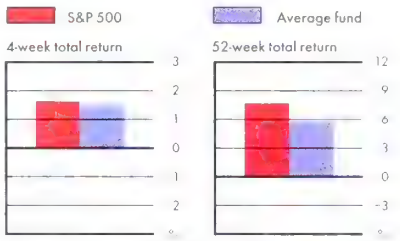
R-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
MPUTER SYSTEMS	−14.2	−31.9	IBM	−25.8	−45.9	48 7/8
BACCO	−9.5	−7.8	PHILIP MORRIS	−10.1	−7.5	73 1/2
RUGS	−7.6	−24.1	PFIZER	−10.4	−16.4	69 7/8
EDICAL PRODUCTS AND SUPPLIES	−6.6	−15.5	BIOMET	−18.7	−49.2	15 1/4
VERSIFIED HEALTH CARE	−6.4	−18.1	AMERICAN HOME PRODUCTS	−8.4	−19.7	66 3/4

UTUAL FUNDS

MORNINGSTAR INC

DERS	
week total return	%
HG GROWTH	17.0
PLEY	11.6
FUN GLOBAL	7.1
eek total return	**%**
DELITY SELECT SAVINGS & LOAN	57.4
AKMARK	49.0
DELITY SELECT REGIONAL BANKS	48.4

LAGGARDS	
Four-week total return	%
MASSACHUSETTS INVESTORS	−14.9
NATIONAL INDUSTRIES	−13.5
LEXINGTON STRATEGIC INVESTMENTS	−10.5
52-week total return	**%**
LEXINGTON STRATEGIC INVESTMENTS	−60.3
UNITED SERVICES GOLD SHARES	−51.0
VAN ECK INTERNATIONAL INVESTORS	−28.5



ELATIVE PORTFOLIOS

DATA RESOURCES INC

ar amounts
resent the present
e of $10,000
sted one year ago
ach portfolio
entages indicate
day total returns

Treasury bonds
$11,031
+0.73%

U.S. stocks
$10,719
−1.10%

Money market fund
$10,282
+0.05%

Foreign stocks
$9,693
−0.86%

Gold
$9,279
−1.17%

ata on this page are as of market close Wednesday, Jan. 6, 1993, unless otherwise indicated. Jan. 5. Mutual fund returns are as of Jan. 1. Relative portfolios are valued as of Jan. 5. A more detailed
try groups include S&P 500 companies only; performance and share prices are as of market close explanation of this page is available on request

MUTUAL FUNDS: REGULATION THAT WORKS

In just a few years, mutual funds have taken their place among the most powerful and dynamic forces in the U. S. financial system. They have given the small investor access to a wide array of investment opportunities that were once available only to investment professionals and the rich. That has helped small investors increase the return on their savings while lowering their risks. By pooling assets, mutual funds have liquefied once relatively illiquid investments such as municipal bonds and the stocks of fledgling companies, thus lowering the cost of capital for both business and government. For many individual investors and businesses, mutual funds have evolved into an attractive alternative to the established banking system (page 62).

But when individuals withdraw money from banks to put into mutual funds, they abandon the shelter of a federal guarantee and put their trust in the funds. So far, the mutual fund industry has merited that trust. In an era racked by financial scandal, misdeeds, and failures, the fund industry has remained squeaky clean. Part of the credit goes to a law that was enacted a half-century ago—the Investment Company Act of 1940. That law set up procedures that have been effective in preventing self-dealing by fund personnel and maintaining the integrity of each fund's assets. Credit also goes to the industry, which for the most part has been scrupulous in keeping an honest shop.

Now, with $1.6 trillion under management and $1 billion or so coming in every day, the mutual funds have become so large and so integral to the financial system that their probity is more important than ever. In the history of American financial institutions, success has too often bred excess. That's the pitfall that today's financial powerhouses must avoid. With power comes added responsibility. Keeping the confidence of investors is paramount. Should they lose it, the damage will go far beyond the industry and ripple through the economy.

The last thing the mutual fund industry needs is new laws. What it does need is a larger staff at the Securities & Exchange Commission, which oversees mutual funds, to enforce the rules already on the books.

BILL CLINTON'S JAPAN POLICY

Bill Clinton barely mentioned Japan during his campaign, but the President-elect is quietly staking out a new approach to dealing with Tokyo. Instead of pressuring Japan to be more like America, Clinton wants to position the U. S. to act more Japanese. His long-term economic agenda of managed trade, public and private investment incentives, technology support, and deficit reduction aims to make the U. S. more competitive with Japan by borrowing some of what he regards as Tokyo's best plays.

If he pulls it off, the Clinton Administration may be a eventually to preempt trade clashes by shoring up U competitiveness (page 42). Meanwhile, Japan still ne *gaiatsu*, or outside pressure, to compel it to overcome its taste for foreign goods. Tokyo's trade surplus with the U is growing again, but with their economy under siege, Japanese will find it more difficult to increase imports. T means that a more muscular trade policy will be needed yield results.

Take semiconductors, which are critical to U. S. comp tiveness in a host of industries. Since 1986, Washington put up with a stream of unfulfilled pledges by the Japan to buy 20% of their chips from non-Japanese sources. Bush Administration kept threatening retaliation but ra acted. Foreign semiconductor sales hit 15.9% of Japan's n ket in the third quarter of 1992, but Japan is sure to h missed the 20% target by the Jan. 1 deadline. Tokyo's c plaints that U. S. chipmakers don't try hard enough ri false: U. S. producers outsell Japan in the U. S. and have jor shares in the European and Asia-Pacific markets.

A results-oriented, managed-trade approach isn't ca for in most trade disputes. But chips are worth cutting n ket-share deals over, and we must make sure those d stick. U. S. chipmakers can't get a fair share of the Japan market without Clinton's help.

REWRITE THE RULES FOR CONSUMER DRUG ADS

Prescription-drug advertising was once a simple b ness. Companies pitched their products only to tors—and the Food & Drug Administration prescri ad rules accordingly. That's why all ads that link a produ name to its use must include a "brief summary"—actual long list of risks, precautions, side effects, and other infor tion that physicians need. But times have changed. W once-fat margins threatened by low-price generic drugs cost-conscious health insurers, companies are taking the b step of advertising directly to consumers, hoping that tients will ask their doctors for pricey prescription p ucts (page 58).

While such advertisements have been remarkably effec in boosting sales, they have also created a regulatory m In the absence of new regulations, the FDA applies the e ing doctor-advertising rules to the consumer ads. The re has been bizarre and troubling. Some ads have to include page-long brief summary, and those without the summ can't mention both the product name and its use. Without plicit rules, drug companies have been pushing past agency's bounds of acceptability, consumers aren't getting best information, and even the FDA admits that the situa is "cumbersome."

The solution is hardly mysterious. The FDA should co out with better guidelines and rules governing this form of advertising. If the purpose of drug advertising i ensure that the consumer understands exactly what is b offered for sale, then ads must be couched in terms the public can understand.

We know that many of you have firm opinions about which countries make good cars and which countries don't. We also know that most of you aren't stubborn or narrow-minded. And if you were to find a car that excelled in every way a car can excel, you'd give serious thought to buying it, no matter where it came from. That brings us to the Chrysler Concorde. It's built around a new automotive architecture called "cab forward," which results in more room than any Acura, Lexus or Infiniti. Its 24-valve overhead-cam V-6

delivers more horsepower than a BMW 525i, and more torque than a Nissan 300 ZX. And, thanks to four-wheel independent suspension, its handling is what *AutoWeek* describes as "world class." Chrysler has maintained safety leadership with standard driver and passenger air bags. Fully loaded—and that means V-6, four-wheel anti-lock brakes, computerized traction control, an Infinity sound system, and glove leather-trimmed upholstery—the Chrysler Concorde goes for $23,432.* And yes, for the record, it's an American car.† Just think of it as an elegant, no-sacrifice way to reduce the trade deficit. For information, call 1-800-4A-CHRYSLER.

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8MB RAM
PS/ValuePoint 6312-SVGA NI
5 slots, 5 bays & mouse
OS/2™ 2.0 pre-installed
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$2,199* 212MB

486SX/25 MHz
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PS/ValuePoint 6312-SVGA NI
5 slots, 5 bays & mouse
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93 January 25

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CLINTON'S AGENDA

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04

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NUMBER 3302

BusinessWeek

JANUARY 25, 19

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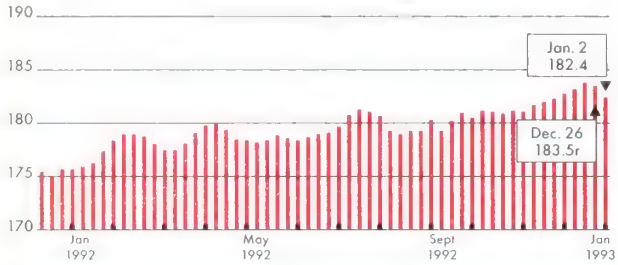
usiness Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. U. S. subscriber rate $44.95 per year. In Canada, one year: CDN $66. Single copies, $2.75; back issues, $5. xecutive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at ontreal, P. Q. Registration Number 9010 Title Reg. in U. S. Patent Office. **Postmaster:** Send address changes to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520

BusinessWeek Index

PRODUCTION

Change from last week: −0.6%
Change from last year: 4.6%

1967=100 (four-week moving average)

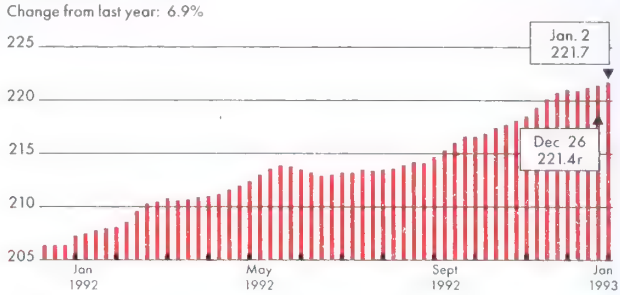


The production index dropped during the week ended Jan. 2. New seasonal-adjustment factors for 1992 show that output in the third quarter was lower than originally calculated, but fourth-quarter production was a bit stronger. Before calculation of the four-week moving average, the index fell to 177.8, from 181.3 in the previous week. For the month of December, the index stood at 182.4, little changed from 182.3 in November

BW production index copyright 1993 by McGraw-Hill Inc

LEADING

Change from last week: 0.1%
Change from last year: 6.9%



The leading index started the new year by rising slightly during the week ended Jan. 2. In the latest week, lower stock prices, an increased number of business failures, and a larger decline in real estate loans offset lower bond yields and improved growth rates for both materials prices and M2. Before calculation of the four-week moving average, the index fell to 222, from a level of 222.1 in the previous week. For December, the index rose to 221.5 from 220.7 in November.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/9) thous. of net tons	1,763	1,762#	−1.5
AUTOS (1/9) units	97,865	0#	22.2
TRUCKS (1/9) units	75,931	0#	98.3
ELECTRIC POWER (1/9) millions of kilowatt-hours	58,012	54,120#	3.4
CRUDE-OIL REFINING (1/9) thous. of bbl./day	13,007	13,311#	−2.1
COAL (1/2) thous. of net tons	14,469#	14,461	−5.0
PAPERBOARD (1/2) thous. of tons	NA#	797.3r	NA
PAPER (1/2) thous. of tons	NA#	752.0r	NA
LUMBER (1/2) millions of ft.	270.3#	267.9	0.6
RAIL FREIGHT (1/2) billions of ton-miles	16.3#	15.9	−2.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/13)	126	125	128
GERMAN MARK (1/13)	1.63	1.63	1.63
BRITISH POUND (1/13)	1.54	1.54	1.75
FRENCH FRANC (1/13)	5.53	5.56	5.56
CANADIAN DOLLAR (1/13)	1.28	1.28	1.15
SWISS FRANC (1/13)	1.49	1.49	1.44
MEXICAN PESO (1/13)	3.096	3.093	3.078

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (1/13) $/troy oz.	327.550	329.600	−6.6
STEEL SCRAP (1/12) #1 heavy, $/ton	99.50	92.50	7.0
FOODSTUFFS (1/11) index, 1967=100	200.6	198.4	−0.9
COPPER (1/9) ¢/lb.	109.7	106.0	10.5
ALUMINUM (1/9) ¢/lb	57.1	57.1	10.9
WHEAT (1/9) #2 hard, $/bu.	3.86	3.72	−7.4
COTTON (1/9) strict low middling 1-1/16 in., ¢/lb	52.85	52.31	−1.0

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/8) S&P 500	432.80	437.92	3.7
CORPORATE BOND YIELD, Aaa (1/8)	7.92%	7.88%	−2.6
INDUSTRIAL MATERIALS PRICES (1/8)	98.0	97.9	5.0
BUSINESS FAILURES (1/1)	390	323	19.3
REAL ESTATE LOANS (12/30) billions	$399.7	$400.0r	−0.8
MONEY SUPPLY, M2 (12/28) billions	$3,432.7	$3,429.2r	0.2
INITIAL CLAIMS, UNEMPLOYMENT (12/26) thous.	291	331	−35.6

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
BUSINESS WEEK PRODUCTION INDEX (Dec.)	182.4	182.3r	4.6
BUSINESS WEEK LEADING INDEX (Dec.)	221.5	220.7r	7.2
EMPLOYMENT, CIVILIAN (Dec.) millions	118.3	118.1	1.3
UNEMPLOYMENT RATE, CIVILIAN (Dec.)	7.3%	7.3%	2.8

Sources: BW, CIBCR, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (12/28)	$1,029.4	$1,019.7r	14.9
BANKS' BUSINESS LOANS (12/30)	278.5	277.0r	−5.3
FREE RESERVES (1/6)	1,168	1,166r	89.0
NONFINANCIAL COMMERCIAL PAPER (12/23)	139.7	145.0	6.2

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/12)	2.91%	3.33%	4.01%
PRIME (1/13)	6.00	6.00	6.50
COMMERCIAL PAPER 3-MONTH (1/12)	3.27	3.36	4.08
CERTIFICATES OF DEPOSIT 3-MONTH (1/13)	3.22	3.26	4.09
EURODOLLAR 3-MONTH (1/8)	3.29	3.34	3.96

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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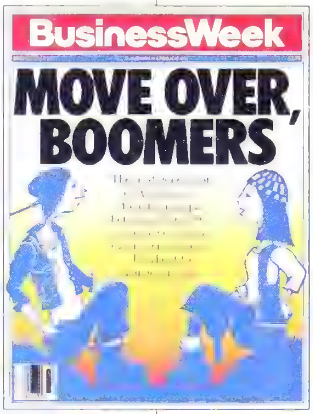
Readers Report

A PORTRAIT OF 'GENERATION X' —OR A CRUDE STEREOTYPE?

I'm a 24-year-old male, and I have seen other notable publications cast my generation, the 18- to 29-year-olds ("Move over, boomers," Cover Story, Dec. 14) as a strange, misguided, racial hodgepodge. But BUSINESS WEEK has nailed down our self-image, finally explaining the context of our upbringing and why certain fashion, musical, and other consumer trends appeal to us. I would suggest this article to any marketing organization that must learn to appeal to "Generation X," and there are many of them. Wake up, and take a look at what's coming down the conveyor! Bravo, BUSINESS WEEK.

John M. Saaty
Pittsburgh



The fashion, the music, the politics, and the anger toward the baby boomers was a total surprise to me and my friends. Besides, it's not the baby boomers we should be angry at, it's (soon-to-be-gone) President Bush's generation, who won't retire quickly enough.

As for those "Xers" who can't get a job after graduation other than a garment shop, have they ever heard of connections? In college, I was always told that more important than good grades or getting experience was making connections. Guess Amy Ross and Kristi Doherty were absent that day.

Next time you want to do a piece on my generation, try interviewing some Xers who aren't "McJobbing" it.

Jonathan Barron
New York

I take great offense at the buster broad-brushing of my [boomer] generation as silver-spooned, self-indulgent recipients of a bountiful lifestyle. No one ever implied that I was the "center of the universe" in my blue-collar boyhood home. I enlisted in the Air Force to save money for college. Four years later, when I enrolled, I knew anthropology was a freeway to a "McJob." I worked my way through graduate school without hip clothes or "weekend getaways." When my wife and I bought our first house, we acquired a mortgage with a 19% interest rate. The busters are angry? Yo, gimme a break.

David P. Smith
Yukon, Okla.

In typical careless baby-boomer fashion, we've been labeled as "busters," "post-boomers," "young fogies," "pseudo-executives," "slackers," and as your insightful cover story illustrates, "Xers."

By the time today's Corporate America finally gets a handle on what to call the most highly educated, well-adjusted, motivated, and socially/culturally diverse generation of workers in the history of our nation, they will find only one appropriate label: "boss."

Michael P. Tringale
Consultant
Huthwaite Inc.
Purcellville, Va.

I may be a "buster" by birth and a "boomer" by values, but there is a time to grow up and get on with life. To all the rest of Generation X: You are no longer in high school or college. Grow up, get a job, and work hard to get where you want to go. It's time to quit surfing and time to start working.

Larry J. Graubner
Antioch, Tenn.

I only wish the X kids knew that my graduation class of 1970 had it much the same as they do today. We came out of college into a full-blown recession (not to mention Vietnam and Richard Nixon in the White House). I worked a series of "low-tech" jobs until getting my first opportunity with a real future in 1975. I lived in a house with three other single guys and drove a junky old car and ate a lot of meals at mom's table.

It was more correctly the '80s kids

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Readers Report

CORRECTIONS & CLARIFICATIONS

In the story "Strategic taxpaying: Big shifts at the top" (Personal Business, Dec. 7, 1992), we misstated the level of adjusted income that triggers a limitation ($300 for each $10,000 of marginal income) to tax deductions. For most taxpayers it applies to income above $105,250; for married filing separately, it's $52,625.

A forecast for the stock of Symbol Technologies Inc. in "This stock doesn't scan" (Inside Wall Street, Jan. 11) should have been attributed to a New York money manager and not to Robert Mains of First Albany Cos.

who graduated to great starting jobs and new cars. These kids thought Ronald Reagan the greatest President ever (they would have said since Franklin D. Roosevelt, but most of them didn't know who he was).

You are correct that if X kids can keep their wits about them, they'll probably do better in the end than anyone. Who knows computers and communications better than they, being trained from grade school to know?

I also think that their hard-eyed realism and basic hunger to succeed on their own devices in an unforgiving economic environment will make them stronger than earlier generations who expected it all as their due.

Doug Weiskopf
Cincinnati

Why don't you folks give it a rest? For 20 years, every burp of the baby-boomer generation has been dissected and analyzed—to no one's enlightment. Let's let this generational self-obsession go to its well-deserved death instead of inflicting it on a generation for which you can't even find a catchy name.

Guy Murdock
Washington

Working hard in college and mastering Nintendo games hardly constitutes paying your dues—nor does it entitle anyone to leap to the top of the corporate ladder.

Generation X might wear work boots and flannel shirts, but they've yet to roll up the sleeves and break a sweat.

Mack E. Beal
Annapolis, Md.

In your story, the X kids don't like this and they want that, etc. I am 20 years old, and yet I am nothing like what you have described. You have labeled an en

·e generation with unnecessary and un-
anted stereotypes.

Rowdy K. Webb
Boulder, Colo.

don't use words like "jones," "rave" or "slacker." I don't listen to Nirvana Nine Inch Nails. I don't watch Bever- Hills 90210 or MTV. I don't wear ɔped jeans. I'm fully and happily em-
oyed, and I'm optimistic about my fu-
re. I also don't feel angry and alienat-
l, or at least didn't until I read your
ticle.

John A. Csellak
Cincinnati

consider your commentary on music preferences more accurate for those ill searching for a prom date. Your mment that we prefer torn jeans, erced noses, and tattoos is a ridiculous ɜneralization. If this were actually the se, no wonder none of us can find a b in our field. Most disturbing is your t of our media preferences. What ɔout those of us who actually read a ırrent newspaper or listen to National ıblic Radio?

Yes, we have been thrown from col-
ge straight into the worst job market a long time, and yes, we are angry. owever, that does not mean we are indless, overgrown teenagers.

Please give us credit for being the eative, talented, intelligent people ost of us are.

Cynthia A. King
Columbus, Ohio

he tone was quite hostile and filled with jealousy and animosity toward generation (boomers) that left an indel-
le mark on the world.

Paul Guzzardo
Forest Hills, N. Y.

ou failed to acknowledge the other group of 18- to 29-year-olds who are college, already involved in their cho-
ɜn field of career interest (manage-
ent), optimistic about the future, and hose favorite entertainer is ultracon-
ɜrvative Rush Limbaugh.

Your portrayal of "Generation X" as a ·oup of young people who lack direc-
ɔn and purpose in our lives only applies liberals. Please don't group us 18- to
)-year-old conservatives into your Gen-
·ation X; we simply won't fit the de-
ɜription.

Todd A. Glass
Anderson, Ind.

. K., now I'm totally confused. For years, I have been told that I was a ırt of the baby-boomer generation, hav-
g been born in the 18-year period after
'orld War II, or 1946 to 1964. Now, I
arn from your story that I am now a founding member of Generation X, being between 18 and 29 years old (28). So which is it—boomer or buster? Should I drink Coke Classic or Crystal Pepsi? Should I watch VH-1 or Beverly Hills 90210?

Perhaps I and the millions of other 28- and 29-year-olds are part of some multiple-personality generation. We're old enough to remember the Apollo moon landing but young enough to be rollerblading. You can just call us the "boosters." We'll be the ones wearing the tie-dyed T-shirts and listening to Guns N' Roses.

Tom Duncan
Louisville

I shudder to think my future will be predicated by a group of young people who apparently expect things to be handed to them on a retrograde silver platter.

As a bona fide boomer, I graduated from college in the recession-ridden industrial downsizing of the early 1980s, (smack dab in the Rust Belt, no less). Landing a job in the nonprofit sector, I struggled between paychecks, didn't rely on mommy and daddy, nor did I blame the generation ahead of me for the adverse economic conditions of the time.

My message for the tattooed, pierced, and angry busters:

Grow up!

Nan Arnone
Racine, Wis.

I'm afraid I'll have to take you to the hoop on this one. As a member of the "me" generation, I would think that a more appropriate label [for the busters] is the "re" generation. After all, who is it that will have to rethink, reengineer, retool, reenergize, reinvent, and recycle all that their predecessors have put together (or screwed up, as the case may be)?

Joan Samuelson
Nashua, N. H.

It is quite amusing that while my friends and I who have MBAs and JDs are living at home with our parents and working at Taco Bell to pay off student loans, your article's main focus was how to market to busters so that we'll fuel the economic recovery.

Tell your boomer advertising execs not to get their hopes up until us busters can find real jobs.

Bernard Cheung
Glen Clove, N. Y.

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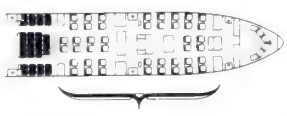

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By Barry Bluestone and Irving Bluestone
BasicBooks • 335pp • $25

CAN UNIONS HELP AMERICA COMPETE?

The prevailing view of organized labor during 12 years of Republican rule has been a harsh one: Unions are obstacles to U. S. competitiveness and should be swept away if they don't knuckle under. Anyone who hopes that Bill Clinton will endorse this perspective had better grab a copy of *Negotiating the Future: A Labor Perspective on American Business*.

The book, by Barry Bluestone, a respected liberal economist at the University of Massachusetts, and his father, Irving Bluestone, a retired top official of the United Auto Workers, will send shivers up the spines of most U. S. executives. The Bluestones go well beyond the growing consensus that companies must adopt employee involvement systems to become more competitive. They say workers must have input at every corporate level—right to the top. What's more, they say cooperative schemes work best in a unionized company. "Suggesting that unions might be the critical missing element in a national campaign for global competitiveness may seem farfetched even to those sympathetic to organized labor," the authors concede. But they find the logic too compelling to ignore.

Although it remains to be seen if Clinton will go as far as the Bluestones—after all, he was elected as a business-friendly Democrat, and some Arkansas union leaders had harsh words for his labor record—he agrees with the book's thrust. Endorsing it on the cover, he states that "the Bluestones offer a New Covenant for labor and management based on participation, cooperation, and teamwork" that "will have to be adopted, if America is to regain its competitive edge." The book also got the endorsement of Robert B. Reich, Clinton's nominee for Labor Secretary. Reich is a member of the Economic Policy Institute, a liberal Washington think tank, as are Barry Bluestone, his friend, and Laura D'Andrea Tyson, Clinton's pick to head the Council of Economic Advisers.

According to the Bluestones' analysis, Frederick W. Taylor's century-old theory of scientific management, under which managers and supervisors tell workers how to perform their jobs, keeps U. S. companies from achieving the productivity and quality levels needed to compete in a global economy. The authors point to the growing number of studies that conclude that participative systems are more efficient than authoritarian ones.

Negotiating the Future then goes further. Done properly, it says, employee involvement can help most companies, including nonunion ones. But, as the Bluestones rightly point out, any system set up unilaterally by management can just as easily be dismantled by it. "The underlying weakness of the nonunion work force lies in its total dependence on the goodwill and the personal philosophy of the managers," the Bluestones warn.

They also think companies must embrace more extensive employee involvement than most now do. While Corporate America has set up thousands of work teams, most companies permit employee input into only relatively low-level decisions. The typical team involves 5 to 10 employees who take greater responsibility for their own jobs. Once teams are set up, most executives quickly realize that supervisors and middle managers must relinquish some power. But few leaders have extended this realization to the decisions they make themselves.

Virtually none, in fact, has emulated the intense worker participation of General Motors Corp.'s Saturn Corp.—despite Saturn's success. There, the Bluestones note approvingly, "the entire structure, from the office of the president of the corporation to the employee on the shop floor, is predicated on joint decision making" from strategic policy making to day-to-day problem-solving. This degree of input requires a mechanism for expressing the organized voice of employees. A union is one vehicle, as is a German-style works council in which elected employee representatives sit on plant-level management committees.

The authors make another good point about the limits of participative systems. The goal of employee involvement is to boost quality and productivity and make companies competitive. But while labor and management can work together to make the pie bigger, they will inevitably clash over how to divide it up. Indeed, the Bluestones think the latter issue can't be addressed strictly through collaborative institutions. Because managers have an obligation to put shareholders' interests first, employees need people they can trust to do the same for them—especially since raising productivity often produces pressure to eliminate jobs. "In the absence of an independent union, workers always carry a residual apprehension of management," say the Bluestones.

Inexplicably, after arguing so persuasively for a transformation of the workplace, the Bluestones provide no prescriptions for achieving it. They explain why many union leaders distrust cooperative ideas, and they stress that the union leaders must change their views. They also recognize that management attitudes toward worker participation would have to change profoundly. But the Bluestones seem to hope that the logic of their views will prompt both sides to adopt them. Nowhere do they advocate passing laws to turn U. S. labor relations into a partnership, along the lines of Germany's 1952 Works Constitution Act, which institutionalized works councils.

Still, it seems clear that the Bluestones won't object if Washington takes the lead on this issue. Clinton has made general promises to do so. The question now is how forcefully he will act.

BY AARON BERNSTEIN

Bernstein is BUSINESS WEEK's Workplace Editor.

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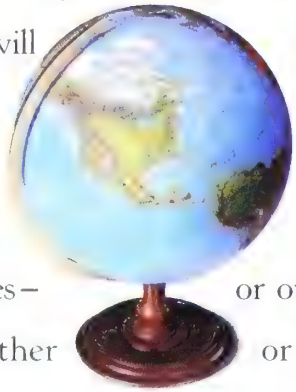

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LLOYD BENTSEN HAS THE SOUL OF A SUPPLY SIDER

BY PAUL CRAIG ROBERTS

It's up to the incoming Treasury Secretary to finish the job he began in 1979, when he helped President Reagan usher in a dozen boom years

Senator Lloyd Bentsen, Treasury Secretary-designate in the Clinton Administration, was one of the six congressional leaders of the supply-side revolution. On Apr. 23, 1980, he told the U. S. Senate: "The Joint Economic Committee, which I chair, has tried during the past two years to move our nation's economic policies along the paths suggested by supply-side theories, emphasizing the need to stimulate savings and investment in order to improve productivity, get more goods on the shelves, and reduce inflation and fight unemployment at the same time."

In his remarks, Bentsen praised me for my work "as a Hill staff member" in formulating supply-side ideas into policy, and he inserted my *Wall Street Journal* column on supply-side economics into the *Congressional Record.*

POOR STRATEGY. Since that time there has been good news and bad news. The supply-side policy that Bentsen advocated achieved exactly what he said it would: Stagflation is gone, and inflation was cured during a record economic expansion that created 18 million new jobs. Tragically, to give President Reagan a political victory, White House Staff Chief James A. Baker III made supply-side economics a partisan issue by allying with Southern Democrats in order to freeze the House Democratic leadership out of the tax bill.

This proved to be a strategic error because it denied the Democrats any stake in the success of the new policy. Forced to fight for their political life against a successful economic policy, Democrats, with help from the anti-Reagan Republican Establishment, used the budget deficit to brand the supply-side policy a failure. In effect, a quicker-than-expected victory over inflation was transmogrified into a deficit defeat. The unanticipated disinflation shriveled nominal gross national product relative to forecast and resulted in unexpected budget deficits. However, the Democrats and their acolytes in the media falsely claimed that the Reagan Administration had predicted the tax cut would pay for itself and that the deficits were evidence of Reaganomics' failure. This bum rap has been ground into the public's consciousness for more than a decade.

Baker's error in politicizing the policy was gratuitous. Supply-side economics had gained much of its credibility from Senate Democrats: Sam Nunn persuaded the Senate to pass the Kemp-Roth bill combined with spending limits in the autumn of 1978. Russell Long's Finance Committee reported out a supply-side tax cut during the 1980 Presidential campaign, and Bentsen turned the Joint Economic Committee—which had previously been a forum for tax-and-spend policy—into a bipartisan advocate of supply-side economics.

At a 1980 press conference introducing the committee's annual report, Bentsen proudly announced that "the JEC is on the cutting edge of a new approach to economic policy. In 1979 we were a pioneer of the concept of supply side economics." Bentsen's interest changed the focus of econometric models used in policy making. In May, 1980, Bentsen set the tone for JEC hearings on the models when he said: "For too long we have focused on short-run policies to stimulate spending, or demand, while neglecting supply. Consequently, demand has been overstimulated and supply has been strangled in a noose of disincentives woven of unnecessary regulations, taxation, [and] inflation..." Bentsen warned that "if we continue to focus solely on demand policies, we risk the nation's economic future."

The economic-model builders got the message. Otto Eckstein, a Harvard University professor who was proprietor of the Data Resources Inc. model, gushed that supply-side economics "is the most exciting thing I'm doing at the moment. The world is about ready for assimilating supply-side ideas."

LAUGHABLE. In 1980, Bentsen affirmed that he was not going to back away from supply-side economics. "I'm going to stay with it," he assured *The New York Times.* He was convinced that Phillips curve trade-offs between inflation and employment resulted from an incorrect policy mix and that it was not necessary to fight inflation with unemployment and vice versa.

If Bentsen can extract himself from the rhetorical war of the past decade, he has a golden opportunity to recover George Bush's supply-side fumble and make Bill Clinton, like Ronald Reagan, a two-term President. Pulling in the opposite direction will be Laura D'Andrea Tyson, the designated chairwoman of Clinton's Council of Economic Advisers, who believes that "there is no relationship between the taxes a nation pays and its economic performance." In 1980, Bentsen and his fellow Democrats on the JEC would have laughed such an uninformed statement out of the committee room.

Bentsen helped restructure federal economic policies in favor of private incentives and away from public spending. We only got halfway there. Incentives have improved, but public-spending growth continues to be excessive. It is up to Bentsen to finish the job that he began in 1979, when he declared against conventional pump-priming policies, such as the public-works spending that the political left wing and special interests are trying to foist upon the Clinton Administration.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

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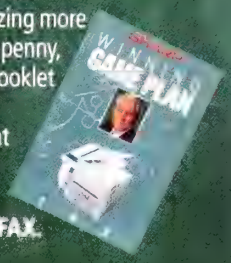

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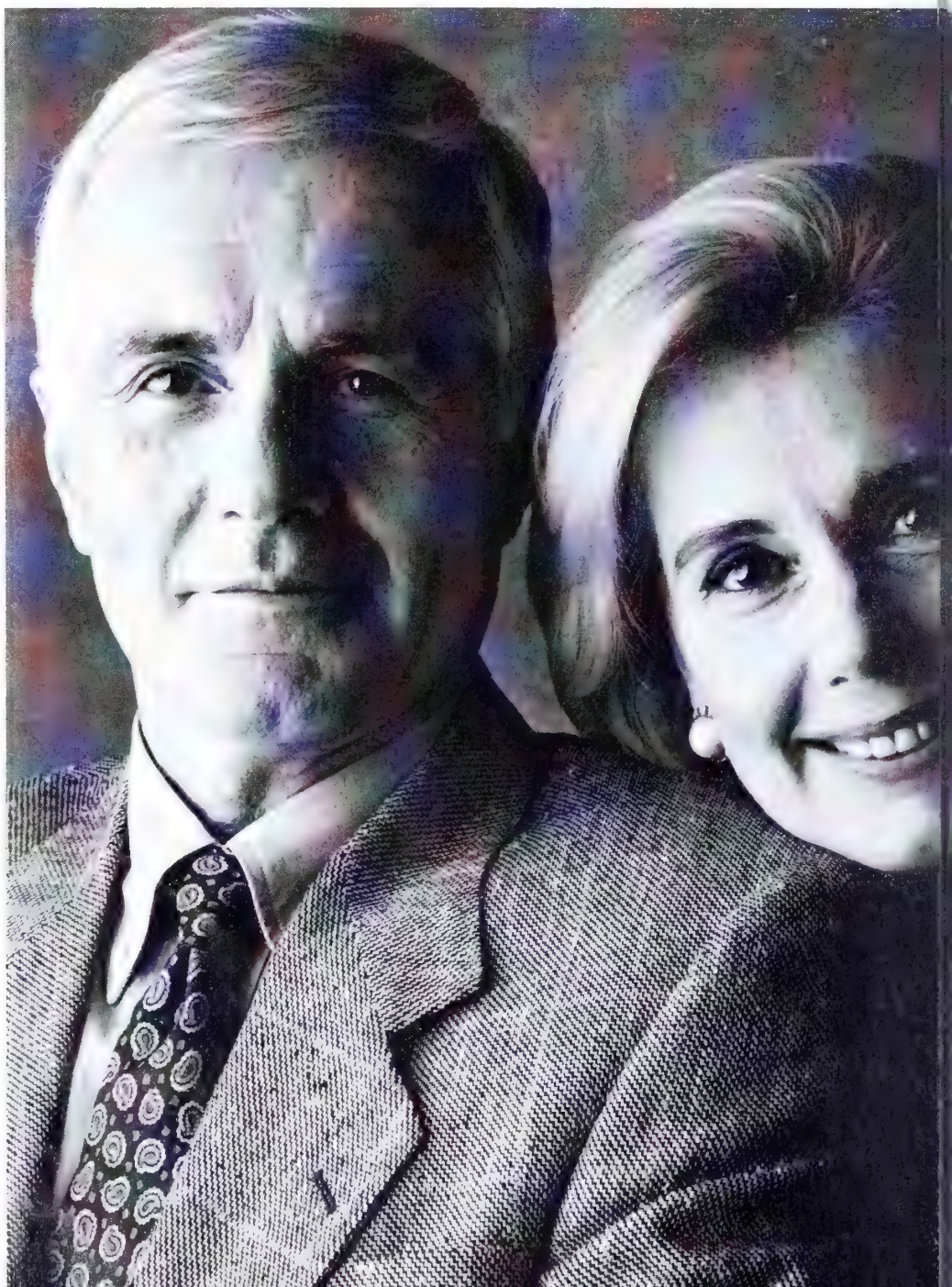
What every man should know about his prostate.



What and where the prostate is

Only men have a prostate. It's a lnut-sized gland located at the ;e of the bladder. It surrounds a 't of the urethra, the tube that car- ; urine from the bladder through ; penis.

The prostate supplies the milky id that helps transport sperm 'ough the penis during ejaculation. e prostatic fluid also aids concep- n by providing support and nourishment for the sperm and helping to make the vaginal canal less acidic.

What an enlarged prostate is

In most men, after age 45, the prostate starts to enlarge and may continue to enlarge for the rest of a man's life. This growth may be benign prostate enlargement, a non-cancerous condition. A major cause is the activity of a key hormone.

By itself, benign prostate enlargement isn't a problem. But as the prostate continues to grow, it can squeeze the urethra (like pinching a straw) and interfere with the normal flow of urine, causing uncomfortable and embarrassing symptoms.

Benign prostate enlargement is a common medical finding in older men. However, not every man develops the condition, and in those who do, it is not always progressive.

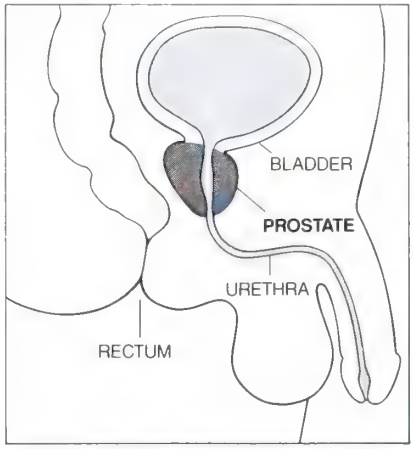
The urinary symptoms of an enlarged prostate

Among the symptoms commonly associated with an enlarged prostate are more frequent urination, especially during the night, or the sudden, almost uncontrollable urge to urinate. The added pressure on the urethra can also cause a weak, interrupted urine stream, a sense of the bladder not emptying completely, leakage, and difficulty in starting urination. It can even result in total blockage, a serious condition.

Why you should consult the doctor

Symptomatic benign prostate enlargement can be helped. Recent advances in treatment have been made, and today your doctor has several options. So now, more than ever, is an excellent time to consult your doctor. You and your doctor should discuss which treatment option would be best for you.

If you experience any symptoms, see your doctor and speak frankly about the problem. A simple rectal examination enables the doctor to feel, with a gloved finger, the size and condition of the prostate. This exam, and other tests the doctor may recommend, will also help to rule out the possibility of prostate cancer. Benign prostate enlargement is not cancer and does not turn into cancer.



The prostate is located at the base of the bladder. It surrounds a part of the urethra, the tube that carries urine from the bladder through the penis. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.

These days, prostate problems don't have to interfere with living your life to the fullest. That's what every man should know.

Talk to your doctor, soon. And, for a free booklet with more information, call 1-800-635-4452.

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BY GENE KORETZ

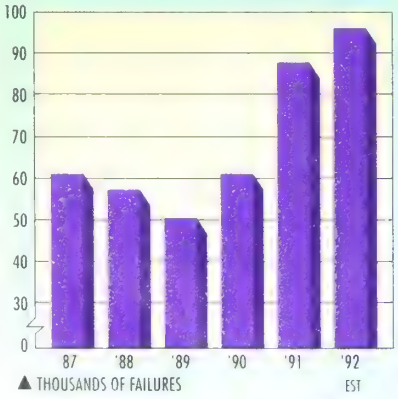
IN 1993, FEWER BUSINESSES MAY GO BELLY-UP

At first glance, there's precious little to crow about in Dun & Bradstreet Corp.'s head count of business failures for the year just ended, which shows that they hit a new peak. But a look at the details of the statistics reveals some far more hopeful developments.

According to D&B's preliminary estimates, some 96,000 businesses closed their doors in 1992, about 9% more than in 1991, when the number of failures skyrocketed by 44%. And the dollar liabilities associated with these failures seem to have come in only slightly below the record $105 billion they reached a year earlier.

The silver lining in this generally doleful picture, says D&B economist Joseph Duncan, is evidence that failures may finally be turning the corner. For example, the year-over-year increase in business casualties, which was running about 20% in the first four months of 1992, gradually declined through the year. In fact, in both November and December, business failures actually slipped below their year-earlier levels for the first time since March, 1990.

BUSINESS FAILURES HIT A PEAK LAST YEAR



DATA: DUN & BRADSTREET CORP

What's more, while all regions of the U.S. experienced rising failure rates in 1991, most regions last year posted flat or slightly declining rates. The two big exceptions were California and New York, which together accounted for 7,100 of the 8,800 nationwide rise in failures through November, the latest month for which state tallies have been completed.

Even in New York, things have been improving lately, with failures up only 8% in November after running more than 50% above their year-earlier pace for most of the year. Only the Pacific region, particularly California, shows relatively little sign of improvement.

Another positive omen, says Duncan, has been a drop in the number of bankruptcies leaving liabilities greater than $1 million. Much of the surge in the number of failures in recent years, he notes, has involved relatively small businesses dragged under by a dependence on bankrupt large-company customers. Now that the incidence of megabuck business failures appears to be declining, the aftershocks in the small-business community should start to subside.

"Based on recent failure trends and the prospect of continued economic growth," says Duncan, "1993 could turn out to be a much better year for business, particularly smaller businesses."

THE TREASURY'S BIG CHANCE TO NUDGE LONG RATES DOWN

Even a little help is welcome in the effort to lower long-term interest rates. That's why a number of economists, including some of President-elect Clinton's advisers, have argued that the Treasury should reduce its issuance of long-term debt in favor of shorter-term securities. If successful, such a strategy could not only cut the government's borrowing costs but also bolster long-term capital investment.

Although many market observers believe that such efforts to manipulate the yield curve are bound to fail over the long run, it's noteworthy that the Treasury did take a small (and apparently successful) step in this direction last year. In May it made a modest, one-time downward adjustment in the sizes of its 10-year and 30-year offerings. And economist Marc W. Wanshel of Morgan Guaranty Trust Co. thinks there's a strong chance that the agency will soon try again.

Wanshel points out that the Treasury's need for funds should be unusually low in the first and second quarters. That's because its coffers will benefit from higher tax payments by individuals who shifted income into 1992 and from the dampening effect of last year's lower withholding rates on income-tax refunds. "The prospect of unusually light borrowing needs," he says, "will provide Clinton Administration officials with a good opportunity to announce a second round of 'onetime' reductions in long-term offerings with minimum risk of roiling the markets."

LOWER INVENTORIES MIGHT NOT BE MUCH CAUSE FOR CHEER

Some economists predict that the recent sharp drop in manufacturing inventories will spark a strong upturn in output. Charles Lieberman of Chemical Securities Inc., however, is skeptical. Lieberman points out that the decline in factory inventories in recent months—and years—has occurred entirely in stocks of raw materials and work in process. By contrast, inventories of unsold finished goods have increased to their highest level in the current business cycle and are plentiful at factory, wholesale, and retail levels.

The distinction is critical, says Lieberman. Although stocks of finished products are quickly affected by shifts in final demand, inventories of raw materials and other unfinished goods mainly reflect the current rate of production. Thus, he argues that the recent decline in unfinished-goods inventories suggests that the current pace of production is slowing, while the high level of finished-goods stocks "implies that there is little apparent need to boost output to replenish stocks."

401(k) SAVERS AREN'T SHIFTING FUNDS—THEY'RE SAVING MORE

Are so-called 401(k) savings plans a major stimulus for new savings, or do they, as some critics have claimed, merely attract money that would have ended up as savings in some other form? The question is more than academic. Such plans have become the fastest-growing employee benefit, garnering over $50 billion a year in pretax contributions from more than 15 million workers (and their employers, who usually provide some matching funds).

In a new National Bureau of Economic Research study, economists James Poterba, Steven Venti, and David Wise looked at the savings behavior of households with similar characteristics—except for their eligibility to participate in 401(k) plans. They found that 401(k)-eligible households saved just as much outside of their plans as noneligible households, but that their total savings were considerably higher when 401(k) funds were added to the tally.

In short, the evidence strongly suggests that 401(k) plans have significantly boosted private savings.

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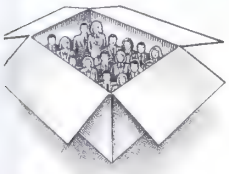
Incidentally, those Visa cards are doing a lot more than just circulating. They're working. Working hard. Working hard for consumers, working hard for business—in short, working hard for the economy.



Visa delivers more customers than any other card.

144 Million Cardholders

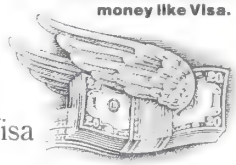
93 Million Cardholders

41 Million Cardholders

25 Million Cardholders

Worldwide, it has been estimated that approximately 600 Visa transactions take place every second. *Every second.* And as a result, something like $450 billion changed hands through Visa in 1992. Most of those dollars are playing their lovely melody on American cash registers; and they're bringing important goods and services into American homes.

No other card moves money like Visa.



What's the message in all these statistics? It's simple, actually, and quite compelling.

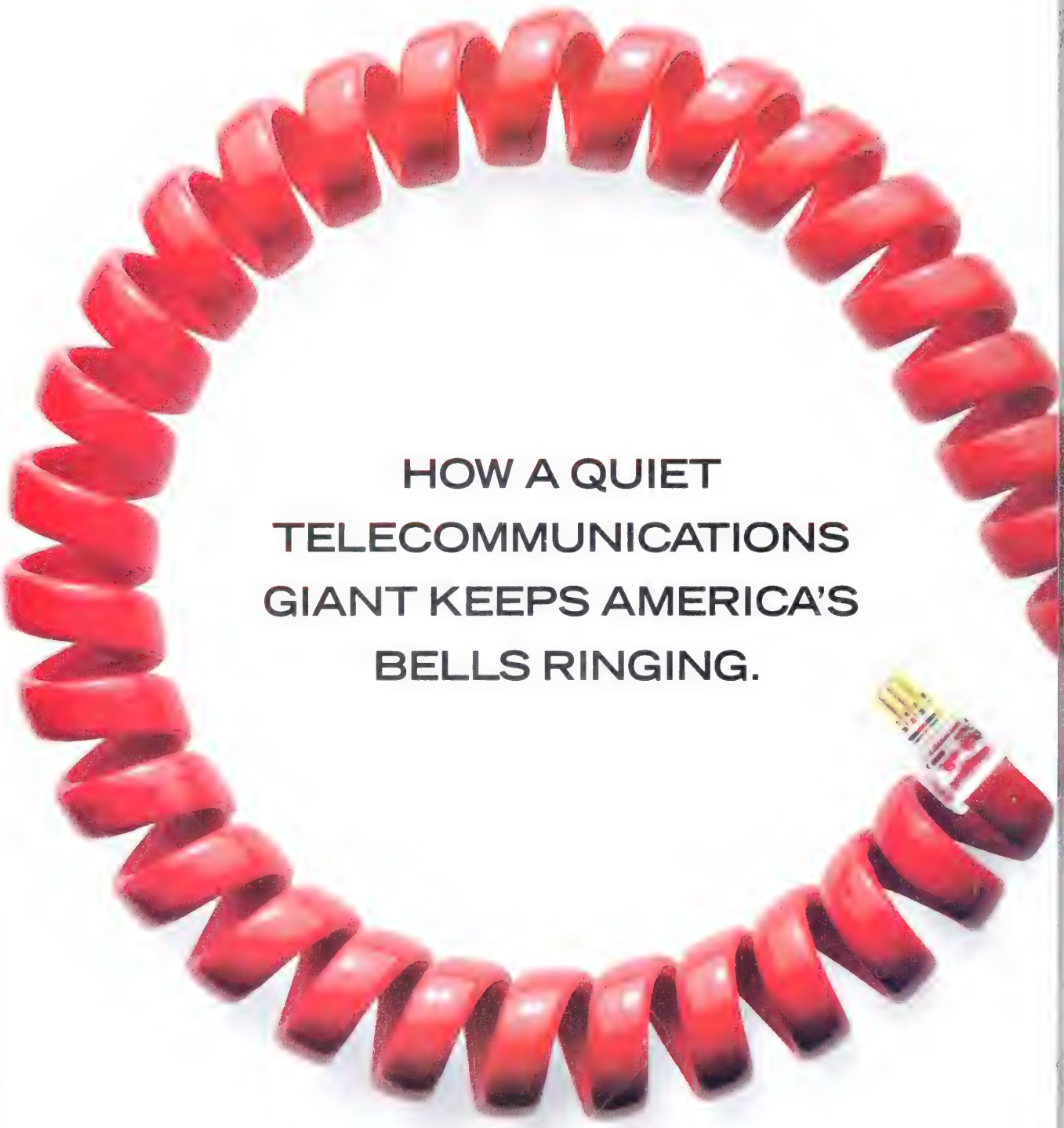
Visa is more than just the preeminent charge card. It's a vital force in the American economy, a tool that can help merchants attract more customers, realize more opportunities and make more money.

In other words, you can count on Visa. Which, in the end, is what social security is really all about.

VISA

Visa U.S.A. Inc. 1993

*Source: Nilson Report, 1992



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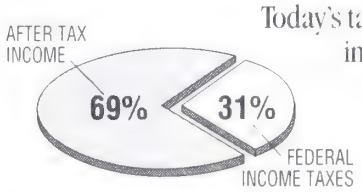

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ANUARY 25, 1993

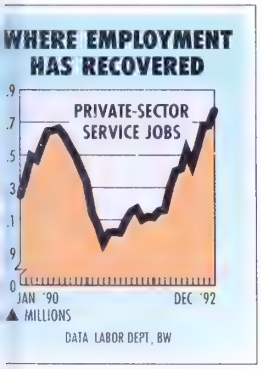
BY JAMES C. COOPER AND KATHLEEN MADIGAN

WHY THIS UPTURN STILL HAS THAT EMPTY FEELING

Growth without jobs. It's like M&M's without the chocolate. But that's what is happening. The economy appears to have grown at an annual rate of 3% or etter during the second half of 1992, but employment in ıe private sector rose a scant 0.2%. How can that be? The ifference is a bounce in productivity. So far, increased output er worker has been the driving force behind the expansion.

Now, however, there are signs that economic growth is bout to become better balanced between efficiency gains nd job growth. The latest data suggest that labor mar-ets are a little firmer as the new year gets under way. If o, that will help consumers cope with the raft of bills oming due after their holiday binge.

The problem is that payrolls still are increasing only lowly, and job growth will remain far below the typical ecovery pace. That's because the pressure on compa-ies to cut costs and boost productivity stems from the conomy's structural problems—public and private debt, efense downsizing, and competitiveness—which will not o away anytime soon.



Still, recent signs are encouraging: Job growth in December was nothing to get excited about, but private payrolls are expanding a bit faster than earlier in 1992, especially in services (chart). And in manufacturing, the workweek was stretched so far at yearend that any further pickup in demand is likely to generate more jobs.

Moreover, the downtrend in ew claims for jobless benefits is a leading indicator that ɔreshadows further employment gains in early 1993. In ıte December, the four-week average, including filings un-er the emergency benefits program, fell to 354,000 per veek. That's the lowest level in 2½ years—since before the 990-91 recession.

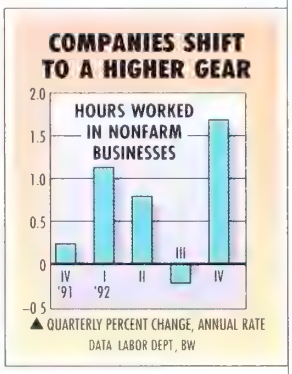
JOB GAINS: THEY AIN'T WHAT THEY USED TO BE

Better, but still tepid, job growth was the message from the Labor Dept.'s employment report for December. Nonfarm industries added 64,000 workers to their ayrolls last month, but that number was pulled down by he 45,000 temporary election workers who were dropped rom government workrolls. Private employment alone—xcluding government—rose by 86,000 jobs.

During the past three months, the private sector has ut on 67,000 new jobs a month, on average. Those gains follow an average monthly increase of only 16,000 during the first nine months of the year.

Still, while that acceleration is heartening, keep in mind that employment growth at this stage of past recoveries has averaged more than 200,000 jobs a month. So far, job gains have been too small to reduce the ranks of the unemployed. The jobless rate in December was unchanged from November's level of 7.3%.

Private-sector service jobs have accounted for all of the growth in nonfarm employment since September. The gains in services, however, have not been widespread. Employment in retail trade is an especially big drag on payrolls in the service sector, in spite of the strongest holiday shopping season in four years.



In fact, the retail sector is a microcosm of the forces shaping the expansion. During the debt-driven spending boom of the 1980s, retailers added more than 4 million jobs. Now, they are under pressure to cut labor costs and increase efficiency.

Nonfarm employment is still 1.4 million jobs below the prerecession level of July, 1990, and losses in retail trade account for 42% of that deficit. The benefit: Since retailers didn't add as many holiday workers as usual in 1992, strong sales undoubtedly produced a bonanza of profits, which will help get the industry back on its feet. The cost: fewer jobs for the expansion.

WORKERS PUT IN LONGER HOURS

Productivity gains continue to lift the economy. Despite only modest job growth, companies are clearly busier as employees work longer hours. Overall working time—a reflection of both employment and the workweek—rose at an annual rate of 1.7% in the fourth quarter (chart). That was the largest quarterly increase in nearly three years, suggesting that the expansion is on firmer footing heading into 1993.

In December, the nonfarm workweek dropped steeply, to 34.3 hours, down from 34.6 hours in November. But those numbers may be distorted by unusually harsh weather, especially the storms that buffeted the East Coast during the government's survey week.

By contrast, the December workweek in manufacturing rose to 41.3 hours, up from 41.2 hours in November—the third consecutive increase. Last month's reading matched

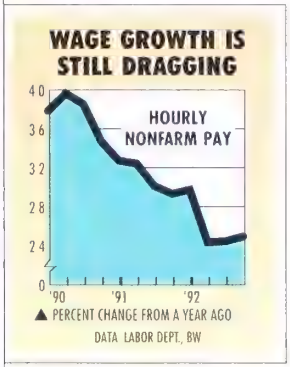
the 26-year high hit in May, 1992. Coupled with a slight uptick in factory employment, the longer workweek means that industrial production posted another healthy advance in December.

PAY HIKES IN 1993 MAY STAY SLUGGISH

Clearly, the drive to boost productivity is giving output of both goods and services a lift, while putting the brakes on labor costs. That is a boon for profits and inflation, but the problem is sagging wage growth. Average salaries are barely keeping pace with prices, and incomes are lagging behind the recently rapid pace of consumer spending. All this raises questions about consumer buying in the first quarter.

The average nonfarm wage slipped by 0.1% in December, to $10.70 an hour, with the decline concentrated in service industries. The drop in wages, plus the shorter workweek, caused weekly pay to fall by 1% last month, after healthy gains in October and November.

For the entire fourth quarter, weekly pay rose at an annual rate of 3.2%, up from a 2.7% pace in the third period. The big plus for inflation: Most of this growth reflected longer hours, not pay hikes. Last quarter, hourly pay was up by only 2.5% from a year ago (chart).

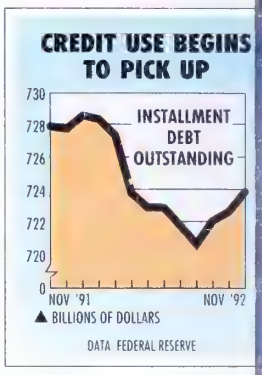


Will pay raises look fatter in 1993? Companies undoubtedly will be in better financial shape, thanks to rising productivity and profit margins. But because job growth will remain modest, companies may not feel compelled to boost wages to attract workers. That why Household America may still feel some financial pinch, even as Corporate America improves.

The weakness in wage growth, however, didn't stop consumers from spending last quarter: Inflation-adjusted consumer buying probably rose at an annual rate of nea ly 5%. And many of those purchases were on credit.

In November, installment credit grew by $1.22 billio That was the third consecutive increase—and the firs such three-month rise since late 1990 (chart). Auto loa climbed by $708 million, while miscellaneous credit, whic includes mobile-home loans and uncollateralized person loans, increased by $413 million.

Revolving credit, which includes credit cards, was up b just $100 million in November. But the December data will likely show a much sharper rise. Reports from the major bank-card companies suggest that last month's increase in revolving debt should easily eclipse the record advance of $3.6 billion set in January, 1988.



Clearly, renewed optimism about the economy's future, especially under a new Administration, made it easier for shoppers to buy on credit durin their yearend spree. Moreover, the record number mortgage refinancings in 1992, along with the 21-montl long paydown of existing IOUs, has made debt loads a b lighter for many households. In November, installmer credit as a share of disposable income remained at 16.1% the lowest debt ratio in seven years.

But the huge credit-card bills that will arrive in Ja uary's mail may curtail spending this month. Also, expec ed reductions in tax refunds mean households will hav less cash. So consumers may sit out the first quarter.

The outlook could change if hiring suddenly takes of But for now, the emphasis on building profits and impro ing productivity suggests that companies will be miserly their hiring. If so, modest job growth will only prolong th empty feeling among consumers that something importa is missing from this recovery.

THE WEEK AHEAD

INITIAL UNEMPLOYMENT CLAIMS

Thursday, Jan. 21, 8:30 a.m.

New filings for state unemployment-insurance benefits probably popped up to about 320,000 for the week ended Jan. 9. Claims had fallen to a 2½-year low at the end of December, but office closings for Christmas likely understated the true number of newly unemployed. With the holidays past, claims should bounce up for a few weeks but then continue to trend lower as the economy and job growth strengthen.

MONEY SUPPLY

Thursday, Jan. 21, 4:45 p.m.

The Federal Reserve Board will probably report that M2—the most widely followed measure of the money supply—grew by about $3 billion for the week of Jan. 11. The growth in M2 began to pick up in the third quarter, but then it flattened out in the fourth. As a result, the money supply failed to reach even the low end of its target range of 2.5% to 6.5% for 1992. The M2 monetary aggregate—which includes cash, checkable deposits, small time deposits, and other items—has gotten off to a poor start for 1993 as well. For the week ended Dec. 28, M2 rose by $3.7 billion, but that followed a combined drop of more than $11 billion in the previous two weeks. Growth of M2 has been slowing down for three years, and the Fed has indicated that it may change its 1993 targets of 2.5% to 6.5% to a lower range.

HOUSING STARTS

Friday, Jan. 22, 8:30 a.m.

Housing starts likely rose to an annu rate of 1.25 million in December, s economists polled by MMS Internatio al, a division of McGraw-Hill Inc. Th December rate would be the best hou ing performance since March. In N vember, starts stood at a 1.24 milli annual pace. Stormy weather in t Northeast and West, however, may ha caused some builders to postpone pr ects, even though demand seems to ha picked up at the end of 1992. If so, t December number may be a bit low than expected. Still, low mortgage rat and higher consumer confidence shou lift homebuilding slightly in 1993.

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CLINTON'S AGENDA

WILL 'MICROSURGERY' GET THE ECONOMY MOVING?

On Jan. 20, William Jefferson Clinton will stand on the steps of the U. S. Capitol, take the oath of office as the nation's 42nd President, and usher in what he hopes is a bright new era. At 46, Clinton is the second-youngest American to be elected President, after John F. Kennedy. And as the leader of his generation, he has promised momentous changes. The man from Hope, Ark., vows to restore the nation's tattered faith in government. But Clinton doesn't want to stop there. He aims to rebuild the American economy, brick by brick, highway by highway, schoolroom by schoolroom.

That's very different from Ronald Reagan, who believed that a big across-the-board tax cut was the perfect tonic for nearly all that ailed the economy. Indeed, Clinton's micro focus is what's truly new about his economic policy.

Since the election, Washington and Wall Street have been obsessed by how big a stimulus program Clinton will embrace, and by whether he'll cut taxes for the middle class. Yet this fascination with macroeconomic policy misses the point. Unlike traditional Democrats, who would spur growth with big doses of fiscal stimulus, Clinton sees the economy as a creaky machine plagued by a hundred different problems. His motto: Talk big. Think small.

Got a pothole? Bill will fill it. Health care too expensive? He'll fix it. Research-and-development growth slowing? He'll promote it. Worker skills lagging? He'll train 'em. "Clinton thinks like a governor," says Brookings Institution economist Barry P. Bosworth. "Name a problem, and he's got four or five little solutions."

Clinton's fondness for microeconomics is no accident. With the deficit topping $300 billion, he has little choice but to

CLINTON'S BLUEPRINT FOR THE U.S. ECONOMY

AGENDA ITEMS
- POLICY GOAL
- THE PITFALLS
- KEY PLAYERS

THE BUDGET DEFICIT
- Slash the deficit. Although Clinton has edged away from his promise to cut it in half by 1996, the rest of his agenda falls apart without credible deficit reduction
- Massive resistance from Congress and interest groups
- Budget Director Leon Panetta

SHORT-TERM ECONOMIC STIMULUS
- Spur economic growth with a quick-fix investment program
- With the economy improving, stimulus could present more risk than opportunity. Could force a rise in interest rates
- Alan Blinder, No. 2 at the Council of Economic Advisers

PUBLIC INVESTMENT
- Improve education and public infrastructure. Originally, Clinton called for spending $20 billion annually on the program. That may be scaled back
- Avoiding pork, finding money for the initiatives
- Labor Secretary Robert Reich, Transportation Secretary Federico Pena

PRIVATE INVESTMENT
- Boost business spending with an investment tax cred and a capital-gains tax cut small business
- Getting the most ban the deficit buck
- Treasury Secretary Bentsen

approach economic woes one at a time. Says Richard L. Schmalensee, a former Bush economic adviser: "The deficit means you can't throw money at something and bask in the applause."

By targeting government incentives, Clinton hopes to put in place a cut-rate competitiveness policy that removes impediments to growth—without busting the budget. "The point," says one Clinton adviser, "is structural change. We're not going to solve long-term problems by stimulating the economy."

True, Clinton promised short-term economic aid during the campaign. But with a healing economy and a growing deficit, he's scaling back the pump-priming to focus more on long-term investment. Although his agenda is still being hotly debated among Clinton's legions of highly opinionated advisers (page 34), he seems likely to go with a first-year stimulus plan of $20 billion or less, a far cry from the $50 billion sought by liberals.

Clinton's agenda, to be unveiled in February, will include a tax credit for new business investment, a modest capital-gains tax cut for small business, and a grab bag of incentives for investment in new technology. There will be proposals to boost worker training and apprenticeship programs and plans to improve public education. Clinton will take a stab at controlling health costs. He's still interested in a sustained program of investment in public works, but he may cut the four-year, $80 billion infrastructure program he promised during the campaign by as much as half. And Clinton is hedging his support for a middle-class tax cut and softening his opposition to such consumption levies as a higher gasoline tax.

DOUBLE TROUBLE. But the President-elect must still decide how to balance his promises to cut the deficit and boost investment through new tax breaks and direct spending. As fiscal reality sinks in, Clinton seems to be edging away from his campaign vow to slash the deficit in half by 1996. Instead, he's promising to reduce it by $145 billion—still a significant cut if he can pull it off.

The task of simultaneously tackling the fiscal and the investment deficits is "the great dilemma that we face today," Clinton told the Public Broadcasting Service on Jan. 11. "If this were just a government-deficit problem, I think we could solve it rather easily. If we just needed to increase our investment lev els . . . we could solve that rather easily."

Clinton hopes to finesse the problen by sprinkling federal seed money on the "knowledge base" of the economy. By improving worker skills, Clintonites be lieve they can boost productivity and ful fill Clinton's promise of better jobs.

But his desire to spur favored indus tries and "critical" technologies trouble many executives. "I don't think the President should lay out the technol ogies that should be implemented," says John Sculley, chief executive of Appl Computer Inc. Adds Conference Boar Chief Economist Gail D. Fosler: "Invest ment comes from the overall economi environment. Business responds to mar kets and opportunities. It does not inves because the government says to." Counters a senior Clinton adviser: "The government's role is to promote innova tion and enable workers to be more pro ductive. We are driven by the god o increased productivity."

To Clinton, that means digging dee into the economic foundation. Robert B Reich, Clinton's nominee for Labor Sec retary, puts it this way: "Behind the business cycle, behind the capacities o

ANK LENDING

Provide regulatory relief for anks that resume business ending. The plan is a cheap way of stimulating the economy

Congressional Democrats may worry about another S&L-style giveaway

Deputy Treasury Secretary Roger Altman

CIVILIAN RESEARCH

Shift up to $7 billion from military research and evelopment to civilian chnologies. To help, Clinton ants to create a network of tension centers that spread anufacturing knowhow to all companies and to make R&D tax credit permanent

Accurately picking industrial ners and losers

Vice-President and no-Czar Al Gore

ENERGY AND ENVIRONMENT

Develop new technologies that save energy and reduce pollution. Side benefit: Could be a potentially powerful new export industry

Pollution control could end up stifling economic growth

Energy Secretary Hazel O'Leary

WORKER TRAINING

Improve public schools, expand opportunities for college and vocational education, and encourage worker retraining. The policy is a cornerstone of Clinton's economic repair job

Expensive for government and business. Clinton may delay his pledge to require business to spend 1.5% of wages on training

Education Secretary Richard Riley, Labor Secretary Robert Reich

U.S. EXPORTS

Make U.S. industries more competitive by strengthening the quality of the U.S. work force and spurring investment. Some Clinton aides argue that the U.S. should provide businesses with stronger protection from unfair trading practices

Trade war

U.S. Trade Representative Mickey Kantor and CEA Chief Laura Tyson

HEALTH CARE

Provide health coverage to all Americans. The plan calls for providing "managed care" to workers. Pay for it by limiting tax breaks on employer-provided health insurance

Satisfying conflicting demands for better care and lower costs

Health & Human Services Secretary Donna Shalala, transition health care chief Judith Feder

iscal and monetary policy, lies a deeper roblem. And that has to do with the uality of jobs."

Productivity and investment. Better obs. That's the Clinton mantra. And it eads straight to his structural reforms. Even if this microapproach is the right olicy, it may face a tough political slog. Many of the things Clinton has proosed won't pay off for a very long ime," says Van Dorn Ooms, chief econmist for the Committee for Economic Development. "His greatest challenge vill be to persuade people to do things hat aren't going to have immediate poitical payoffs."

FUTURE' FUNDS. Oh, and there's another uestion about Clintonomics: Will any of work? Take investment, perhaps the President-elect's biggest challenge. For Clinton, there can't be enough of it. Public. Private. Physical. Human capital. He's even likely to cast his budget in erms of investment—or what he'll call future" spending—vs. a "consumption," or operating, budget. The Clintontes reckon that less than 10% of federal pending fits their definition of investnent. They vow to do more.

Reich and others have assured Clinton that infrastructure spending will produce a handsome payoff. The former Harvard University lecturer argues that because companies and capital move so easily across borders, a nation's competitive advantage lies in its workers and public infrastructure—the only resources that stay put.

Reich's call for increased public-works spending is buttressed by Bates College economist David A. Aschauer, who contends that such investment packs a powerful economic punch. But others question whether the return on public works really is higher than spending on private investment. "Research on this is too preliminary to base any real conclusions on," says Boston University economist Laurence J. Kotlikoff. "The models are far ahead of the empirical evidence."

What about education and training? No one these days is satisfied with the quality of public schools. Surely, a better-educated work force would be more competitive in the world economy. But how much can the federal government do to fix what is essentially a problem for local governments?

Worker retraining is an even tougher nut. Skills training is a critical element in Clinton's effort to retool the economy. Yet a lot of what has been tried in the past hasn't worked. Studies have shown that older workers don't seem to adapt to retraining, especially if the new job is lower-paying. Success with disadvantaged workers appears to be mixed as well. Stephen H. Bell, an economist at the consulting firm ABT Associates Inc., says wages of poor workers who have participated in training programs have gone up, but not enough. "These programs," he says, "have moved families that are extremely low income to very low income."

Clinton wants business to do much of this training. During the campaign, he said he would require companies to spend 1.5% of their annual payroll to train workers. Lately, aides have hinted that he'll rely more on jawboning to push companies toward his goal. Even so, many executives remain horrified. And that's not surprising, considering the long-standing antagonism among business, labor, and government on training issues. Says Susan N. Houseman, an economist at the W. E. Upjohn Institute for Employment Research in Kalamazoo, Mich.: "There's very little

history of corporate-government cooperation in the U. S."

One area where Clinton and Vice-President-elect Al Gore have high hopes for rapprochement with business is their promise to boost technology investment. So far, Silicon Valley loves the attention. "We need to build an infrastructure for the 21st century," says Edward R. McCracken, president of computer maker Silicon Graphics Inc. Says Daniel F. Burton Jr., executive vice-president of the Council on Competitiveness, a private group: "American industry is looking for an expression of support. If industry feels it has a government committed to strengthening investment and productivity, we will see industry become more aggressive."

That's music to Clinton's ears. He'll propose making the R&D tax credit permanent, and he wants to shift as much as $7 billion a year from military R&D to civilian research. But other proposals, such as a promise to create as many as 170 new manufacturing-technology centers, may get scaled back—victims of reality and the deficit crunch.

MURPHY'S LAWS? While they see a role for new public spending, Treasury Secretary-designate Lloyd Bentsen and senior White House economic aide Robert E. Rubin prefer to see government incentives for private investment. That means a tax policy built around an investment credit. Details are still being thrashed out, but the resulting credit will certainly be modest and targeted to equipment purchases.

But the combination of the ITC and a mandate for worker training could produce a perverse result for some workers. Says American Enterprise Institute economist John H. Makin: "Put a tax on labor and subsidize the purchase of new equipment, and you'll increase productivity. And you'll eliminate more jobs."

The law of unintended consequences could also hamper Clinton's attempt to address stingy bank-lending practices, which he believes penalize small business. He would like regulators to ease up on lending. But key Hill Democrats, still tasting the bile of the savings-and-loan-association bailout, may not be quite so enthusiastic.

When it comes to trade, Clinton's microwarriors also think small. The Bush Administration put most of its chips on lengthy multilateral trade talks. But managed-traders such as Laura D. Tyson, Clinton's pick to head the Council of Economic Advisers, think it's just as important to shield crucial high-technology industries until Japan removes its import barriers.

Clinton's competitiveness plan doesn't end there. He wants to restructure environmental regulation, overhaul welfare, and revamp agricultural programs. He also aims to improve the housing stock and boost economic opportunity in inner cities. Clinton, friends sigh, collects solutions the way old vaudeville comics collected jokes. He's got a million of 'em.

And then there's health care, perhaps the toughest of Clinton's structural challenges. Not only has he promised to provide every American with health coverage while reducing the cost of care, he wants to unveil a detailed reform blueprint within a few months. His health team, headed by Georgetown University analyst Judith Feder, has come up with this tentative solution: All employers would provide a core package of minimum benefits. More generous plans would be taxed. And the feds would impose an overall national ceiling on the cost of all health care. It would all be a breathtaking cure—if Dr. Clinton can pull it off.

GO FIGURE. Curiously, for all of his talk about investment, Clinton says very little about national savings. That's not surprising, since it would sooner or later bring him to the one issue he would love to avoid—the deficit. But circumstances, along with his nominee for budget director, Leon E. Panetta, won't let him forget. For Panetta, it's simple. Fix the deficit, and all else will fall into place.

Clinton is no deficit hawk. He views his structural approach as a sort of Democratic supply-side: Boost growth enough, and you can eliminate the deficit without much pain. But as Clinton pores over grim new budget estimates, he's coming to realize that without a vigorous assault on the deficit, he won't have the money to solve all those structural problems. Punting on the budget gap would "be terrible for his ability to lead the country," says Hoover Institution economist John Cogan. It would reduce many of Clinton's carefully crafted schemes to minor tinkering.

President Clinton will need more than artful rhetoric and populist symbols now

Much like Franklin D. Roosevelt, who tried almost anything to drag the U. S. out of the Great Depression, Clinton seems willing to expend enormous energy on making the U. S. more competitive. Most of FDR's recovery schemes failed. Still, Roosevelt's enthusiasm lifted the nation's spirits. And so far, Clinton's early exertions have been infectious, too. His December economic teach-in, which might have been a crashing bore, helped buck up uncertain business executives.

During his transition, Clinton didn't have to do much more than provide the nation with artful rhetoric and populist symbols. The effort has so far convinced many Americans that his Presidency will be a triumph of Hope over experience. But soon, the man from Arkansas will have to start making the tough calls that will define his Presidency. And it'll take more than hope for him to get the economy growing smartly once more.

By Howard Gleckman, with John Carey and Dean Foust, in Washington and Christopher Farrell in New York

HAIL TO THE CHIEF—AND PASS THE HAND GRENADES

The sheer diversity of foreign-policy challenges is daunting

Just after his election, Bill Clinton promised a laser-beam focus on reving up U. S. economic growth. Instead, the new President may find himself worrying about the kind of lasers that guide "smart" bombs to their targets. On Jan. 13, President-to-be Clinton was forcefully reminded of the festering international problems that await him when 112 U. S. and allied aircraft launched a raid on missile sites in southern Iraq's "no-fly" zone. Elsewhere, as Clinton packed his inaugural tuxedo, U. S. Marines suffered their first fatality while feeding the starving in Somalia, and the Air Force girded for possible action in the skies over Bosnia.

None of these regional flashpoints approaches the awesome threat of the nuclear-superpower standoff that has greeted every President since Eisenhower. But the sheer diversity of the simultaneous foreign policy challenges confronting Clinton is daunting. "It's hard to think of a similar period when a new President had so many different crises on his hands," says Alton Frye, Washington vice-president at the Council on Foreign Relations.

ONSLAUGHT. As the first post-cold-war President, Clinton wants to establish a new global role for the U. S. But he would like to ease into foreign policy. Above all, he would rather wait until his ambitious "100 Days" domestic plan had been enacted. But he is probably going to be robbed of that luxury. He is going to have to plunge right into making decisions on the use of U. S. power abroad. And it doesn't help that Clinton has so far named only a handful of players to his foreign policy team.

The foreign policy onslaught could conflict with Clinton's economic agenda. Not only will it divert his attention from domestic concerns, but a clash may loom on Capitol Hill over when and how to intervene abroad. Foreign crises "will force him to spend political capital [on foreign problems] that he wants to spend on domestic issues," says historian Michael R. Beschloss.

That's not to say that Clinton has been dealt a terrible hand. By ordering the strike against Iraq, George Bush may actually have done his successor a favor. "After getting whacked, Saddam Hussein will lie low for awhile," predicts Peter W. Rodman of the Johns Hopkins School of Advanced International Studies. Iraqi representatives at the U. N. quickly promised to stop raiding territory ceded to Kuwait. They also backed away from their insistence that U. N. inspectors use only Iraqi planes. But any respite from the war of nerves will likely be temporary as Saddam moves to test the new President.

Operation Restore Hope in Somalia remains a relatively low-risk venture. The challenge for Clinton will be to find a way to turn the humanitarian mission over to the U. N. and to extricate 22,000 U. S. troops without allowing armed thugs to resume terrorizing the country.

Bosnia is the toughest case. An internationally brokered 10-point peace plan has been tentatively endorsed by Bosnian Serb, Croat, and Muslim leaders. But the plan, like so many cease-fires before, may yet founder. Bosnian Serb leader Radovan Karadzic insists on seeking approval for the settlement from the Assembly of the self-proclaimed Serbian Republic of Bosnia-Herzegovina. The legislature is packed with extreme nationalists who will resist the pact.

BALKAN PUSH? Clinton has signaled that he's more likely than Bush to become militarily involved in the Balkans. He is likely to lean hard on European allies to enforce the ban on Serbian flights over Bosnia, possibly with allied air strikes. He also is mulling easing the arms embargo so that the West can supply arms to outgunned Bosnian Muslims. "Serb forces are spread thin on the ground," says one Clinton adviser. "If [Bosnian Muslims] are reasonably well-armed, they'll fight the Serbs to a standstill." European allies may be spurred to act if the peace plan collapses, but they'll need prodding. Bush excelled at this sort of up-close-and-personal diplomacy. Clinton's skills are untested.

Elsewhere, a new Clinton push is probably required to get the stalled Arab-Israeli peace talks moving, too. Progress is needed to offset ominous trends in the Middle East. Islamic fundamentalists are making enormous strides in depression-wracked Arab societies. And Iran is making a comeback.

Presidents usually revel in foreign policy crises, which give the occupant in the White House a chance to act decisively on the world stage. But Clinton may be hit with too much, too soon. No one doubts that Clinton is a quick study, but these foreign tinderboxes may put his learning ability to the supreme test.

By Amy Borrus in Washington, with John Rossant in Rome

On board the Kitty Hawk in the Persian Gulf: The air strike against Iraq may quiet Saddam for a while

AP/WIDE WORLD

THE ADMINISTRATION

TOO MANY ADVISERS COULD SPOIL THE BROTH

Clinton's 'consult everybody' style may be a recipe for chaos

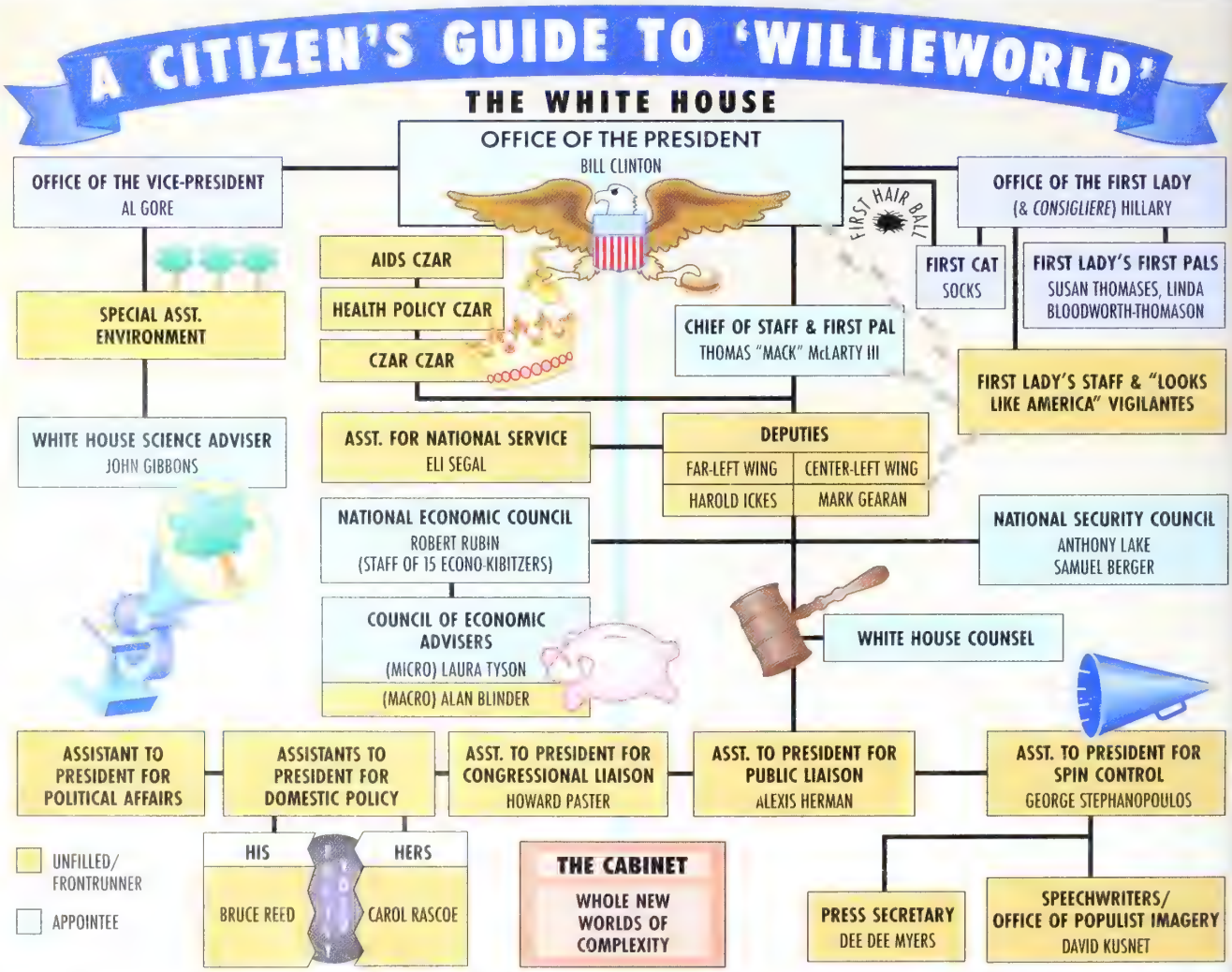
Throw out the pyramid chart. Purge the word "hierarchy" from government manuals. Bill Clinton is moving into the White House and bringing with him a management system that could turn the place into a New Age vortex of collaboration, creative tension—and, maybe, chaos.

It's no surprise that the first baby-boomer President rejects the Organization Man-style that dominated business and government for decades. Modern Presidents have drawn their inspiration from corporate chief executives, who often surround themselves with sycophants. Such leaders "atrophy in high office because they are insulated," says Jeffrey A. Sonnenfeld, an Emory University management expert.

Most post-World War II Presidents also have been admirers of the quasi-military management pattern of Dwight D. Eisenhower. That, says historian Michael R. Beschloss, meant "strict staff systems with clear lines of authority." With his penchant for free-form policy debates, Clinton's approach reminds Beschloss of Franklin D. Roosevelt, "a master broker drawing all into a symphony of frenzied competition."

Indeed, Wonk-in-Chief Clinton is busily setting up his White House like a think tank. Development of economic policy will be split—somehow—by Clinton's Treasury Dept., the Office of Management & Budget, the Council of Economic Advisers, and by a new National Economic Council. Oops, don't forget Labor Secretary Robert B. Reich. A policy heavyweight, Reich may turn his department from a backwater into a powerhouse. Elsewhere in the White House, there are communications kingpins, domestic-policy heavies, and an organization chart like a spaghetti dinner.

WANDERER. None of this fazes Clinton, who practices what's known in the consulting biz as "management by wandering around." Some successful executives, notably John Sculley of Apple Computer Inc. and John F. Welch Jr. of General Electric Co., run their businesses by maximizing contact with managers. James O'Toole of the University of Southern California Leadership Institute warns that CEOs isolate themselves at their peril: "All you have to do is look at



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the 14th floor [of the General Motors Building], behind the bulletproof glass wall, where top managers were hermetically sealed from the world." Listening, O'Toole says, is an essential management skill, and Clinton "may be one of the best."

But a President has only so much time to schmooze. And Clinton's White House gives no one control of access to the boss. Chief of Staff Thomas F. McLarty III, to whom the job normally would fall, describes himself as "an organizer rather than the proverbial gatekeeper." The danger is that Clinton will try to do too much himself. Clinton "is a man of incredible energy and intellectual curiosity, but he can't do that job 18 hours a day, 7 days a week," frets Jack Watson, Jimmy Carter's Cabinet Secretary.

The peril of Clinton plunging into too many issues is especially high because he's surrounding himself with a lot of bright, opinionated people. Faced with a choice of two strong contenders for a single job, Clinton often has found a way to hire both, creating a team with great depth—and high potential for conflict. Lloyd M. Bentsen and Robert E. Rubin both wanted to be Treasury Secretary. Bentsen got the nod, and Rubin got the economic council as a consolation prize. Clinton's desire to hire as many advisers as possible is one reason he now seems to be backing off his pledge to cut the White House staff by 25%.

'IT WORKED.' Clinton is sticking with the style that got him where he is. In Arkansas, he prowled the Capitol at night, buttonholing lawmakers. He ran his campaign in the same unstructured way, adding top aides as the situation demanded. "The system was so messy, it took a while to figure it out," says campaign adviser Michael S. Berman. "But on reflection, I have to say it worked."

Washington, however, is a long way from Little Rock. "How does he get everyone in the act and still get action?" wonders USC professor Warren Bennis. Even under the best of circumstances, the White House suffers from internecine warfare. Clinton's proliferation of offices and titles just heightens the risk. "Clinton's White House has lots of overlapping units, and a lot of them have staffs—and that means the staffs will be clashing," says a senior Bush Administration official. "It won't work."

The trick for Clinton will be to remain focused and to stay above the petty battles. Unlike Jimmy Carter, he won't try to control the White House tennis court. But Bill Clinton, inveterate talker and tinkerer, could end up wasting time on matters almost as unproductive. And it won't help much if all of the spokes in Clinton's White House point toward the big wheel in the Oval Office.

By Susan B. Garland in Little Rock

LEGAL AFFAIRS

A NEW PAGE FOR CHAPTER 11?

Airline execs, bankers—even lawyers—are urging legal reform

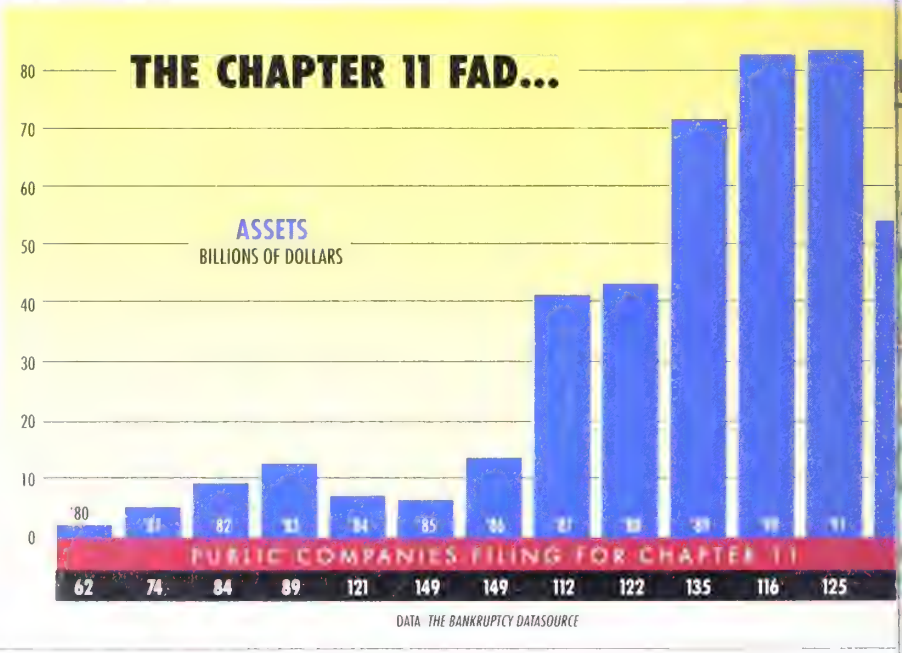
The heads of the nation's biggest airlines have been griping for months about U. S. bankruptcy laws. And the longer such sick carriers as Trans World Airlines and Continental languish in Chapter 11, the louder those cries grow. The executives charge that the law's protections give the ailing airlines a competitive advantage by allowing them to slash fares below the cost of providing service—forcing healthier carriers to do the same or lose customers.

The Bush Administration mostly ignored the complaints. But United Airlines Inc. thinks it may soon gain a sympathetic hearing. On Jan. 6, UAL Corp. chief Stephen M. Wolf sent Bill Clinton a letter urging the President-elect to set up a commission to study the bankruptcy laws and other factors undermining U. S. air carriers. And American Airlines Inc.'s chief financial officer, Michael J. Durham, dares to hope that change might occur. "Call me a crazy optimist," he says. "At least the incoming Administration has said they see a problem and they believe it needs addressing."

The airline folks may find the bankruptcy code a convenient scapegoat. It throws the focus off their overexpansion and overleveraging. Just the same, there's a growing consensus that corporate debtors have become too powerful and that the scales must be tipped back a bit toward creditors.

NO STIGMA. That can be seen in the forces that are gearing up for a drive on Washington to revise the bankruptcy laws. It's not just airlines. Bankers, retirees, and unions also are making bankruptcy reform a top priority this year. Even bankruptcy lawyers—notable beneficiaries of the bankruptcy boom (table)—are proposing revisions to the bankruptcy code. The key target: Chapter 11, which lets companies reorganize their finances free of pressure from creditors. "The cost and delay of running a Chapter 11 are a matter of serious concern that deserves serious scrutiny by Congress and the courts," says Elizabeth Warren, a visiting bankruptcy-law professor at Harvard University Law School.

The airline industry says it's a case study of what's wrong with Chapter 11.



ut so are industries ranging om steel companies to wallboard akers. The healthy companies mplain the law inhibits a key nction of capitalism: weeding it inefficient players. "Shakeouts n't seem to occur," says Thomas . Graham, CEO of Armco Steel o. The companies "hang around e old soldiers and never die."

The problems are magnified by e growth of Chapter 11 filings. hey hit a peak of 149 filings by blic companies in 1985. But the ze of the companies making the lings peaked only in 1991 and reains high (chart). In 1992, 79 mpanies with $53 billion in asets entered Chapter 11. Although e economy is improving, "bankptcies will continue," says Vashington lawyer Roger M. Vhelan. "Whether this reflects a lay-now-pay-later philosophy, it eems the attitude of Americans is ankruptcy doesn't bear the stiga it once did."

VERCAPACITY. Chapter 11 was upposed to give financially trouled companies a second chance. ut a debtor company has only a .5% chance of reorganizing as a oing concern, says a recent study y lawyer Susan Jensen-Conklin. arge, public companies have a much igher success rate. But those that pull hrough are weakened by asset sales. Moreover, companies that languish in Chapter 11 can cause market distortions y keeping excess capacity on line while riving down profit margins for other ompanies in the same business.

The courts are partly to blame for the nefficiencies. Distracted by such issues s environmental liability, some judges are letting cases drag on. Many judges also grant the debtor corporation repeated extensions of the 120-day deadline for filing a reorganization plan. And the longer the cases go on, the less there is for creditors. Since LTV Corp. filed for Chapter 11 in 1986, the professionals advising a committee of equity holders have received about $20 million in fees. LTV's equity holders probably will collect a good deal less from the bankruptcy, says investment banker Wilbur Ross, who is advising one of the creditors' committees.

The harshest critics blast changes in the law that give debtors more clout. Before the law was amended in 1978, management lost control of a company at the time of the bankruptcy filing, and the court appointed a trustee. Now, the executives that run a company into the ground are allowed to try to save it.

Critics also blame the revised bankruptcy law for the swarms of lawyers, accountants, and investment bankers that descend on companies in Chapter 11. Under the old code, judges would award these professionals cut-rate fees based on the return to creditors. Today, professionals get paid market rates based on the services provided.

The result is often a feeding frenzy. After Zale Corp. filed for Chapter 11 last January, professional fees ran as high as $1 million a week. To prevent that, the judge in the R. H. Macy & Co. bankruptcy, filed last year, appointed a committee to keep tabs on the fees. Yet they now total about $25 million. Los Angeles bankruptcy lawyer Kenneth N. Klee says that professional fees still only average about 3% of the company's debt. Perhaps so, but every buck a lawyer or accountant gets is a buck creditors never see.

That's why legal fees are likely to be on the agenda when Congress takes up bankruptcy reform. Last year, both the House and Senate passed legislation that included a provision giving bankruptcy-court officials more control over the payouts. But the measure bogged down at the last minute.

RETIREES' RIGHTS. The fee provision is expected to be in a new bill to be introduced as early as February. As it did last year, the legislation will cast a wide net. Among the proposals: a new section for small businesses and language reversing a court ruling making it difficult for banks to recover assets. The bill also is likely to call for a commission to study the bankruptcy code. A similar commission was set up in the 1970s.

Some powerful lawmakers are pushing other changes. Senator Howard M. Metzenbaum (D-Ohio), for one, is championing the rights of retirees, who often get shortchanged in bankruptcy. He wants to require debtors who get new financing to give priority to retiree health benefits. And Representative Jack Brooks (D-Tex.) wants to add collective-bargaining obligations to that requirement. A Metzenbaum staffer vows that a bankruptcy bill won't pass without those two provisions.

Critics deplore such tinkering. "The bankruptcy code is really in danger of being eviscerated by special interests," says lawyer Sandra E. Mayerson, who represents banks that criticized Metzenbaum. Others would just as soon see Congress leave well enough alone. "In any system, you will find abuse," says bankruptcy lawyer Bruce R. Zirinsky. "But that doesn't mean the system is bad. As a matter of public policy, reorganization is better than liquidation," since it preserves jobs.

The question is, whose jobs? The law seems to have been reshaped into a lawyers' full-employment act. As long as that's the case, and as long as some companies in Chapter 11 enjoy a cost advantage over their solvent rivals, the airline industry and others will continue to holler that the bankruptcy law is killing competition, not saving it.

By Michele Galen in New York, with Catherine Yang in Washington and bureau reports

BANKRUPTCY COURT IN NEW YORK: CASES DRAG ON AND ON

EANS MORE LAWYERS

	Bankruptcy lawyers 1987	1992
GOTSHAL & MANGES ork	9	110
MAN & STERLING ork	50	90
EN, ARPS, SLATE, HER & FLOM ork	25*	70
AN, LEWIS & BOCKIUS elphia	25	60
POLK & WARDWELL ork	20	60
HY, WEIR & BUTLER ancisco	20	58

DATA: BEARD GROUP, BW ESTIMATE

COMPUTERS

CEO JOBS: HIS NEXTSTEP PROGRAM IS A BIG DRAW, BUT WORKSTATION PERFORMANCE LAGS

NeXT'S BLACK BOX MAY BE THE NEXT TO GO

Steve Jobs's company may wind up pushing software, not hardware

Will the last executive to leave NeXT Computer Inc. please turn out the lights? In the past year, seven of nine vice-presidents at Steven P. Jobs's struggling computer company have been canned or left for greener pastures. The latest: co-founder and hardware chief Richard A. Page, who's scheduled to split Jan. 15, pleading burnout. Why the mass exodus? NeXT isn't on its last legs, but it's clear that Jobs, despite his desire to re-create the success of Apple Computer Inc., isn't going to make lightning strike twice.

Not without some sort of miracle, anyway. With no one besides himself and President Peter van Cuylenberg to run software development, manufacturing, marketing, and sales, Jobs's hands are full. Indeed, NeXT's sleek black cube of a computer, introduced in 1988, never really took off, despite its whizzy graphics and powerful software. The company now has exhausted some $200 million in funding from Jobs, Japan's Canon, IBM, and Ross Perot. And plans for a public stock offering have been pushed up to 1994. Says one former executive: "I can't figure out how they can make it."

That sounds like an exaggeration. NeXT retains most of a $55 million credit line from Canon. Its NextStep software is years ahead of potential rivals, such as Microsoft Corp.'s Cairo and Apple and IBM's Taligent systems. And it will shortly announce that it pulled off a decent, if unspectacular, 1992. Sales were just over $140 million (chart)—up 10% from 1991 and 50% in the U. S., outpacing the workstation market's single-digit growth. In the fourth quarter, the seven-year-old company earned its first-ever operating profit.

HOT SYSTEM. What's more, Jobs, who always seems to have another rabbit in his hat, insists that some big sales are in the works. At least one customer, he says, plans to buy more than 10,000 copies of its software. And negotiations are under way to license NeXT's software to rival workstation maker Hewlett-Packard Co. and perhaps others. "Things are going better than they have in a long time," Jobs proclaims.

But not in hardware, it seems. The performance of NeXT workstations has slipped far behind those of HP, IBM, and Sun Microsystems. And its unit volumes tap only 20% of its manufacturing capacity, prompting rumors that its highly automated Fremont (Calif.) factory soon may be shut down. Jobs denies the rumors, and hints that the company is readying some new, higher-powered machines.

Still, Jobs concedes that NeXT's only hope for long-term survival, let alone stardom, is its software. Many view the NextStep operating system as the most advanced on the market today. Embodying a hot technology called object-oriented programming, it lets customers quickly write new programs and mold existing ones to new uses.

Gregory Anderson, whose Anderson Financial Systems Inc. writes software for NeXT machines, says NextStep lets him deliver new features to harried money-market traders "before they forget they asked for them." Such power has attracted orders for several thousand copies each from McCaw Cellular Communications Inc. and Chrysler Corp. Other customers include Citicorp, WilTel Communications Systems, Bear Stearns, Phibro Energy, and Mobil Oil.

CHIP SHOT. So broadening NextStep's market reach is now Jobs's main goal. He vowed in January to rewrite the software to run on the millions of IBM-compatible PCs powered by Intel Corp.'s 486 microchip. Accommodating the 486 would lure more suppliers of packaged software and attract customers who have been wary of committing to NeXT's proprietary hardware. Unfortunately, NextStep 486 won't ship to customers before June—just when Microsoft and Sun will be pushing their own operating systems for the 486, Windows New Technology and Solaris, respectively.

But Jobs's biggest shortcoming seems to be marketing, not technology. NeXT's sales force is just too small and strapped for cash to reach many prospects. Says Michael Slade, former marketing vice-president who left last October: "My budget in the last quarter wouldn't have bought one ad in BUSINESS WEEK." As a result, says Robert G. Pearson, director of Sun's advanced desktop systems, "they seem to have disappeared in the past year."

Can Steve Jobs, who's known among NeXT enthusiasts as a "hardware junkie," possibly find happiness running NeXT as a maker of software? "I can think of worse fates," he says. And so can customers: "I wouldn't feel sad at all if the hardware went away," says Anderson, for one. Take it as a compliment, Steve: Your software's killin' 'em.

By Robert D. Hof in San Francisco

A BRUISED BORLAND IS UP AND SWINGING

The PC software maker insists it will win the latest price slugfest

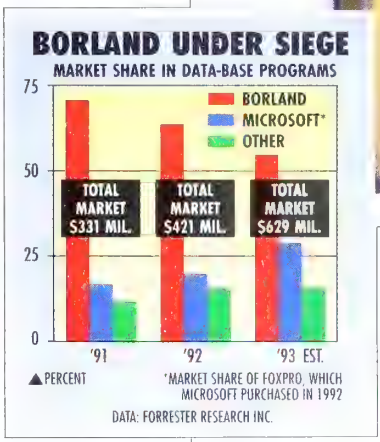
New Year's Eve was lead-heavy with symbolism for Philippe Kahn, Borland International nc.'s chief executive. He snapped on kis and a backpack and, with a party of kiers, trudged his way up to the 14,000-oot level of an Aspen ski slope. It took wo grueling hours. But at the top, Kahn ushered in midnight with a glass f champagne, then put on his lighted eadgear and swooshed down through he Colorado white powder. "It was per-ect," Kahn says. "I had all the uphill tuff in 1992. And I'll have all the down-ill stuff in 1993. This year is going to e great for Borland. No problem."

But it may not be the done deal Kahn redicts. In 1992, Borland, the No. 5 aker of personal-computer software, vas plagued by product delays and hit-nd-miss profits. Topping it all was the ayoff of 15% of the company's 2,200-erson work force in December. These ays, Borland's stock is trading around 9, near its 52-week low, as investors nticipate the company's Jan. 18 an-ouncement of an $11 million operating oss for the quarter ended Dec. 31.

Wall Street figures Kahn will wrap up iscal 1993, ending Mar. 31, by breaking ven on $475 million in evenues. That would e an improvement ver the company's 992 loss of $110 mil-on on sales of $482.5 illion. The profit omeback is part of Kahn's recovery plan, ne that could be as ricky to execute as naneuvering a double lack diamond ski run.

MORE BLOOD. The dea: return to Bor-and's roots with aggressive prices on op-notch products. Borland will fire its irst salvo on Jan. 15, when it is set to nnounce 90-day promotional prices on wo key products: Paradox for Windows, new data base that will sell for 139.95 instead of the $795 Borland harges for other Paradox versions, and Quattro Pro for Windows, a spreadsheet hat has sold poorly since its September lebut. That program will go for $99.95, lown from $495. The lowball prices will ndercut rivals by as much as six imes—a move sure to draw more blood in the ongoing PC software price wars.

And that's the rub. While Borland has built itself up from a no-name to the top tier with bare-knuckled pricing on quality products, this time could be different. In the past, Borland was the underdog with nothing to lose. Now, Borland holds 64% of the $450 million data-base market (chart)—and it has plenty at stake. By weighing in with a rock-bottom price tag on its new data base, the company could permanently lower prices on data-base software. And that could forever cut Borland's revenues. Notes analyst Terence Quinn of Kidder, Peabody & Co.: "Borland has, without a doubt, the most to lose here."



But Kahn points out that early versions of Paradox for Windows, which will ship on Feb. 1 after 12 months of delays, have won technical praise. He figures the solid reviews and low promotional price will combine to ignite huge sales volume. The fight will be tough. As Borland piled up delays with its Windows product, its chief rival moved in for the kill. Microsoft Corp. beat Borland to market by shipping its Windows data base last November and stole a page from Borland's book on pricing. It has launched its own 90-day promotion, selling Access for just $99. The result? "It's going like gangbusters," says Charles Stevens, Microsoft's data-base general manager. He says Microsoft has sold 500,000 copies of Access—nearly five times more than projections. "I think we've got the advantage of going first and soaking up the pent-up demand," says Stevens.

COUNTERSTRIKE. Kahn begs to differ. He says Microsoft rushed Access to market too soon, as evidenced by reports of bugs in the product. Microsoft concedes that Access has about 20 bugs, none of which, it claims, are serious. And John Eroszonak, director of vendor relations at software seller PC Connection Inc. in Marlow, N. H., says his company has been surprised by the few calls it has received for technical support—a rarity for high-selling new software.

There's more. Just as Borland is about to launch Paradox for Windows, Microsoft is preparing a counterstrike. In late January, Microsoft plans to ship its second Windows data base, FoxPro. That will go head-to-head with Borland's dBase for Windows, which won't hit stores until the second half of 1993. Says Goldman, Sachs & Co. analyst Rick G. Sherlund: "Maybe Borland put their finger in one hole in the dike. But Microsoft will poke another. Microsoft has them on the defensive."

KAHN: SURE, MICROSOFT'S DATA BASE BEAT HIS TO MARKET—WITH BUGS

Being on the defensive is just where Kahn and company have been most successful—a point of history even Microsoft acknowledges. "I certainly can't count Borland out," Stevens concedes. Kahn figures his strategy guarantees him an awesome run. If he's wrong, 1993 will be one long, slippery slope.

By Kathy Rebello in Scotts Valley, Calif., with bureau reports

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EXECUTIVE SUITE

A CULTURE THAT WAS LIKE A "MILITARY BARRACKS": EX-CHAIRMAN KAZARIAN

HOW TO LOSE FRIENDS AND INFLUENCE NO ONE

Sunbeam's Paul Kazarian had to go because 'he made people nuts'

As corner-office firings go, the ouster of Sunbeam-Oster Chairman Paul B. Kazarian would have been swifter only if the directors had used a guillotine. In late December, the board rewarded him for turning in strong financial results by giving him a hefty bonus on top of his $1.75 million annual pay. Then, on Jan. 9, Director Peter A. Langerman flew to Chicago, where Kazarian was at a consumer-products trade show. At 11 p.m., Langerman went to Kazarian's hotel room and told him the board had voted him out earlier in the day.

Kazarian says he has "no idea" why he was fired. But interviews with current and former Sunbeam employees, as well as outsiders who came in contact with him, suggest an explanation: As they tell it, Kazarian's problem went beyond a simple lack of "people skills." He went out of his way to abuse and humiliate employees, suppliers, and adversaries in negotiations. The ill will he generated reached such a pitch, says a Sunbeam insider, that the company's directors hired an outside counsel last year to conduct an independent investigation of employee complaints against Kazarian.

Relying on the report of the lawyer, the board concluded that the hostility was serious enough to make Kazarian no longer able to lead the company effectively. Says Director Roderick M. Hills, a former member of the Securities & Exchange Commission: "Regardless of his role in turning the company around, we have lost confidence in him going forward."

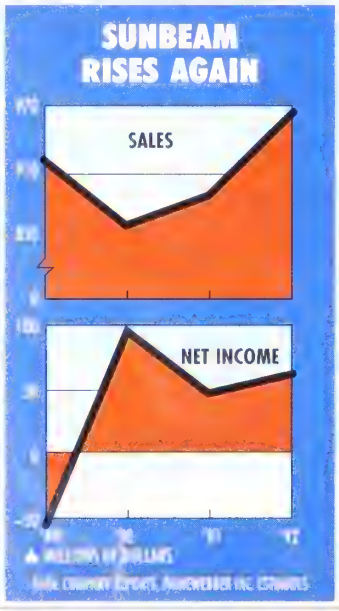
No one at Sunbeam would say a word against Kazarian's intelligence or motivation. The 37-year-old former Goldman, Sachs & Co. investment banker led a group of investors, including Michael Steinhardt's Steinhardt Partners and Michael Price's Mutual Shares Corp., in the 1990 hostile takeover of Sunbeam, formerly Allegheny International Inc., while it was still under bankruptcy-court protection. The group paid $660 million to buy what is turning out to be a gold mine. "It was one of the best analytical jobs I've seen of demonstrating value where [previous] management didn't see it," says Steven R. Fenster, a Harvard business school professor.

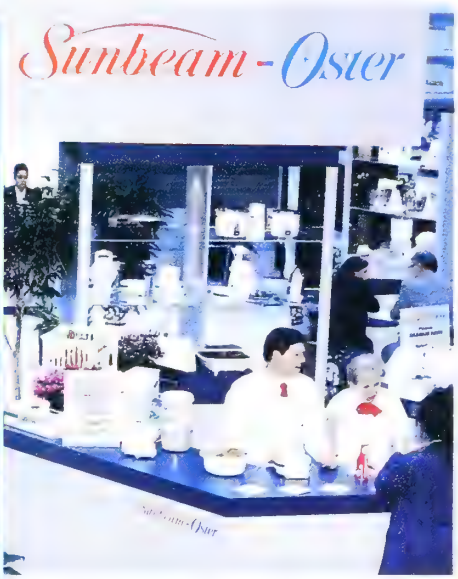
'OBSCENE, VULGAR.' Former executives, though, say Kazarian was far better with numbers than people. After the takeover, he moved Sunbeam's headquarters from Pittsburgh to Providence, where he presided over a culture that was like a "military barracks," says a former executive. Kazarian's comments often took the form of "obscene, vulgar haranguing," says another former exec. "Every other word was the F word." Kazarian denies using unusually coarse language and says he wasn't the only one cursing. "If someone got too bad," he says, "we were sure to close the door."

Managers' concerns involved more than issues of style. Last summer, James J. Clegg, the head of Sunbeam's household-products division, signed a $3.7 million deal with ad agency Foote, Cone & Belding Communications Inc. in Chicago for a fall TV and print campaign promoting Sunbeam and Oster kitchen appliances. But Kazarian abruptly canceled the campaign, faxing Foote Cone a letter saying the contract with Clegg was "unauthorized," according to Foote Cone Managing Director Mitchel Engel. Engel promptly sued Sunbeam. The case is still pending. "He sure made a lot of people nuts," says Engel. Clegg has declined to comment.

Others at Sunbeam say Kazarian was known around the company as a micromanager. For example, he initially insisted on approving all capital expenditures over $5,000.

Kazarian started rubbing people the wrong





THE CHICAGO SHOW: KAZARIAN'S LAST STAND

way even before he took control of Sunbeam. During the Allegheny bankruptcy proceedings, participants recall, he had shoulder-length hair and routinely showed up at court hearings wearing blue jeans and a baseball cap. In one meeting with lawyers representing Allegheny management, he bit off the end of a cigar and spat it on the floor, recalls Bruce McCullough, an Allegheny attorney. McCullough, an experienced lawyer, is aware that negotiators' tempers can wear thin. But he says Kazarian sometimes went to extremes with foul language, and in one instance nearly came to blows with McCullough. Kazarian denies McCullough's version of events, but won't give his own.

The ousted chairman defends his actions as necessary. "You don't change a company in bankruptcy without making a few waves," he says. "I wasn't there to be a polite manager. I was there to create value for shareholders." He says some 20 top managers became millionaires from stock options.

BLINDSIDED. Like Kazarian, investors and outsiders did not see the dismissal coming. Sunbeam had just reported a 40% jump in third-quarter profits, to $12 million, on sales of $200 million, up 11%. Yet Kazarian's departure has had little effect on the stock. Since his firing was announced on Jan. 11, Sunbeam shares actually have risen a bit.

The market reaction has been muted, in part because Kazarian appears to have left Sunbeam in excellent shape. Before the takeover, the company was a hodgepodge of businesses, some losing millions of dollars a year. Kazarian sold off the losers, restructured the remaining appliance operation, and turned a $40 million loss in 1990 into a $47 million profit in 1991. He uncovered overlooked assets, including some $60 million in foreign bank accounts. Last year, he sold 23% of Sunbeam to the public at 12½, raising $236 million in a transaction that implied a value for the entire company of $1.05 billion. Sunbeam stock has since risen to about 17.

Shareholders now are enjoying improving performance, thanks to new products and lower costs. Sunbeam's hottest wares include a new line of high-end small kitchen appliances and a heated throw blanket. PaineWebber Inc. analyst Andrew Shore sees Sunbeam's sales growing 8% in 1993, to over $1 billion, and profits rising 40%, to $86 million.

Kazarian's personal financial outlook also is pretty bright. Because he was not, strictly speaking, fired "for cause," he will continue to collect his salary for the five years remaining on his contract. That's $8.75 million worth of consolation.

By Geoffrey Smith in Boston, with Michael Schroeder in Washington and Lois Therrien in Chicago

Commentary/by Gary Weiss

SOLLY: WHATEVER HAPPENED TO CLEANING HOUSE?

It was a marriage made in Wall Street heaven: John W. Meriwether and Salomon Brothers Inc. Bond trader and bond-trading house, linked by bonds of monetary devotion, turned the buying and selling of Treasury paper into supernatural acts. Poof! Year after year, hundreds of millions of dollars—$400 million in 1990 alone—would materialize in profit statements. They used words such as "arbitrage," but everyone knew what was going on: Meriwether's magic. And when Meriwether was forced to resign, in the wake of the bond-trading scandal in 1991, the magic seemed to go with him.

MERIWETHER: SALOMON'S KIND OF GUY

BUFFETT: HE PROMISED A FRESH START . . .

So Meriwether may be coming back. It's anything but a done deal, and his spokesman won't comment on reports to that effect. But it's a fascinating prospect, if only because of the awkward dilemma that it raises for the new rulers at Salomon: If John Meriwether's role in the scandal was awful enough to warrant his firing, how in the world can Solly hire him back?

Meriwether was vice-chairman of Salomon, and overlord of all trading, when the scandal broke. On his watch, Solly bought more Treasury notes than the government's auction rules allow. Salomon laid the blame on a single employee—Paul Mozer, head of the government bond-trading desk. Mozer was indicted on Jan. 12 for securities-law violations, charges he is fighting.

BRUISED WRIST. The public record is clear: Meriwether has been found guilty of absolutely nothing. Yes, he settled a Securities & Exchange Commission suit in December. The SEC maintained that Meriwether failed to supervise Mozer's actions. Meriwether, neither admitting nor denying the allegation, accepted a three-month suspension from the securities business and a fine of $50,000. By contrast, CEO John Gutfreund was banned for life from heading any securities business.

Meriwether and Gutfreund paid markedly different prices for making essentially the same fatal blunder. According to Salomon's own version of events, Gutfreund, Meriwether, and Salomon President Thomas Strauss all learned of unauthorized bids in one of the auctions two months after they were made. But they failed to report them to the government "due to lack of sufficient attention to the matter."

Now, Solly must figure that's all so much ancient history. And it knows full well that come March, Meriwether will be free to work at any firm—or set up his own, if he wishes. But Salomon knows it needs him most, past peccadillos notwithstanding. That became obvious last summer, when Salomon's earnings suffered because of what it described as losses on one or two long-term investments. Trading is still Salomon's money machine. The securities firm can't risk losing Meriwether, and the traders loyal to him, to the competition.

True, rehiring Meriwether may draw a few scattered brickbats from Washington. After all, when the scandal broke, the regulators and congressmen were assured by Warren E. Buffett, then the acting chairman, that the top-level housecleaning meant Solly was wiping the slate clean. But time has passed. Tempers have cooled. And if there's a credo that Salomon's traders always have lived by, it's this: If it makes money, do it. Period. Hiring back their ace trader would signal the markets and regulators that Salomon still values profits over everything else—including public appearances. But the public be damned. John Meriwether and Salomon Brothers were meant for each other.

Weiss covers markets and investments for BUSINESS WEEK.

It's time for a change to Gallo.
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CABLE TELEVISION

THE SECOND EMPIRE OF JOHN MALONE

His Liberty Media is fast becoming a force in cable programming

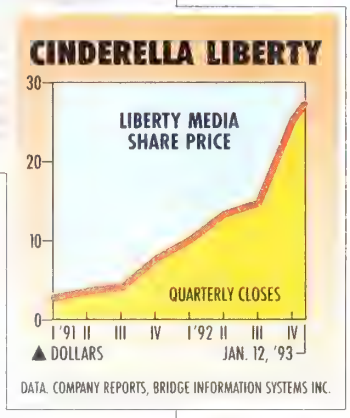
ON THE BALL: LIBERTY'S PRIME SPORTS NETWORK WILL SOON GO NATIONAL

He's Mr. Cable TV. Trained as an electrical engineer, John C. Malone turned empire builder 19 years ago, when he took over a tiny Denver cable operator. Today, Tele-Communications Inc. (TCI) is a $4 billion-a-year behemoth serving nearly 10 million customers in 49 states.

TCI's chief executive is hungry for more. Now that most of the country is wired for cable, Malone has set his sights on programming. In March, 1991, TCI spun off its programming subsidiary, Liberty Media Corp. Since then, Liberty's stakes in some of the best-known cable channels have turned the company into a Wall Street favorite—and added considerably to Malone's already impressive wealth.

LEAPING STOCK. Malone, who is also Liberty's chairman, has been on a buying binge since early December. First, he made Liberty the major player in the $2 billion-a-year home-shopping industry. On Dec. 7, it paid $150 million for voting control of Home Shopping Network Inc. (HSN). Then, Malone joined forces with former Fox Inc. Chairman Barry Diller and cable operator Comcast Corp. to take control of HSN rival QVC Network Inc. The deal, which would enable Liberty to expand into such state-of-the-art programming as interactive games, is now under federal antitrust review.

In January, Malone started focusing his attention on sports. Liberty's Prime Network, a loose affiliation of regional sports stations, has made plans to combine with SportsChannel to create a nationwide network serving 41 million households. Although not yet large enough to challenge ESPN's 62 million households, Prime will be able to string together its regional coverage to sell lucrative national ads. Not bad, considering Prime Network's estimated 1992 revenues of a mere $150 million.



Wall Street certainly has noticed, pushing Liberty's stock up to about 28. That's a twelvefold increase in only 22 months—after adjusting for a recapitalization and a four-for-one split (chart). No one is happier with the stock's performance than Malone himself. He owns 22% of the company's common stock. In the past year alone, his block of 13.2 million shares has posted a $264 million gain.

Although perfectly legal, Malone's method of amassing his Liberty stake was unorthodox. According to Securities & Exchange Commission filings, Malone obtained more than half his holdings through options granted in lieu of a chairman's salary. His initial contract with Liberty entitled him to exercise only 20% of the options a year. But the company's board waived that requirement and allowed him to buy all his shares in one fell swoop. To finance the $25.6 million purchase, Malone sold his personal stake in QVC to Liberty for $100,000 and gave the company a $25.5 million personal note. He later paid off part of the note by giving Liberty some of his TCI stock.

NO COMPLAINTS. Malone, who declined to be interviewed for this story, may be enriching himself, but his investors aren't complaining. "I sure don't mind being in partnership with the smartest man in cable, especially if he has his own money on the line," says William Nygren, research director of money manager Harris Associates in Chicago, which owns 14% of Liberty's common.

Liberty's portfolio of cable channels is what sparks that enthusiasm. It owns 17% of Black Entertainment Television, along with a 50% stake in American Movie Classics and lesser pieces of The Family Channel and Court TV. The regional sports channels hold cable rights to 15 teams in the National Basketball Assn., 7 in Major League Baseball, and 5 in the National Hockey League. All told, Liberty's assets, which include pieces of 18 small cable systems, are worth about $2.3 billion, figures Donaldson, Lufkin & Jenrette Corp. analyst Dennis H. Leibowitz. That's nearly $37 a share.

The full value of those assets can't be realized unless a market exists for programming. That's where the link to TCI comes in handy. TCI payments account for some 30% of Liberty's $111.2 million in revenues for the first nine months of its current year, according to Liberty's SEC filings. And that will grow by early 1994 if TCI, as planned, expands many of its systems to 500 channels through digital-compression technology.

Liberty intends to grow to fill those channels. It has little debt on its balance sheet: The debt stays on the books of its joint-venture partners, the cable channels. "We have the resources and the mind-set to grow," says Liberty President Peter R. Barton. "We're looking at a lot of things." That should gladden the hearts of Liberty's investors. Especially the biggest Liberty investor of all, Mr. Cable TV.

By Ronald Grover in Los Angeles, with bureau reports

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In Business This Week

EDITED BY HARRIS COLLINGWOOD

DIVIDEND DIRECTIONS

The pace of dividend increases picked up in 1992, and Standard & Poor's expects the acceleration to continue this year. S&P looks for dividends on its 500-stock index to rise some 6%. Here's the lowdown on 1992 payouts, compared with 1991:

	1992	1991
DIVIDEND INCREASES	1,333	1,086
DECREASES	131	187
RESUMED	53	50
EXTRAS	317	322
OMITTED	146	250

DATA: STANDARD & POOR'S CORP

RUSSIAN INDUSTRY GOES ON THE BLOCK

▸ Trying to outrun opposition from hard-liners, the Russian government is racing ahead with its program to privatize state-owned industry. Auctions of shares in some 200 factories in the Volgograd region of southern Russia will begin on Feb. 8. Similar auctions of hundreds of enterprises will soon be announced in nine other regions across Russia. The U. S. Agency for International Development has come up with about $13 million to cover the costs of the sales, which will be conducted with advice from the World Bank's International Finance Corp. and from Price Waterhouse.

"The aim of this first wave is to make privatization irreversible as quickly as possible," says Anthony Doran, manager of IFC's European department. The government's goal is to privatize 6,300 state enterprises by yearend. Even if it runs into delays, the campaign could touch off an industrial restructuring, as new owners demand changes in unprofitable enterprises. And it could speed the creation of a secondary market in securities for the first time since the revolution of 1918.

CHRYSLER GETS CREDIT FOR ITS NEW STOCK

▸ Chrysler plans to cash in on its high-octane stock, issuing 40 million new shares. The estimated $1.4 billion offering will bolster Chrysler's balance sheet, moving the company a step closer to the investment-grade credit rating that it lost two years ago. At least half of the anticipated proceeds will be used to reduce Chrysler's $3.9 billion unfunded pension liability.

Credit-rating agencies immediately applauded the move, hiking Chrysler's credit rating a notch or two. And investors reacted mildly to the 14% dilution: In the two trading days following the announcement of the offering plans, Chrysler stock fell a point or so, to about 34.

AIDS'S ECONOMIC TOLL IS STAGGERING, TOO

▸ The global economic impact of the AIDS epidemic could be as staggering as its toll on human lives. A new study by forecaster DRI/McGraw-Hill estimates that by the year 2000, soaring AIDS-related medical expenses and lost productivity across the world could cost as much as $500 billion annually. That's as if an economy the size of Mexico's just disappeared.

Hit hardest by the epidemic will be Africa and the Middle East, which could see their gross domestic product depressed by more than 4% by the end of the decade. Asia, outside of Japan, could lose as much as 3% of national output. And though Japan so far has a low reported infection rate, it could suffer from depressed exports to North America and the rest of Asia, where the epidemic is having a greater direct impact. DRI says the Japanese economy will lose about 1% of GDP—about as much as the U. S.

'MY DOG ATE MY CHECKBOOK'

"The check is in the mail" just doesn't cut it anymore. Instead, says Les Kirschbaum, president of Mid-Continent Agencies, one of the largest collection agencies in the U. S., deadbeats are growing far more creative in their temporizing.

Topping the list of Kirschbaum's favorite excuses of 1992 is the one about the debtor, the Mid-Continent agent, and the paternity suit. It seems that a debtor was taking birth-control pills, which, in combination with her financial woes, caused her severe headaches. Her physician ordered her to eliminate either her pills or her source of stress—her bills. So she threatened to sue the bill collector if she were forced off the pill and became pregnant.

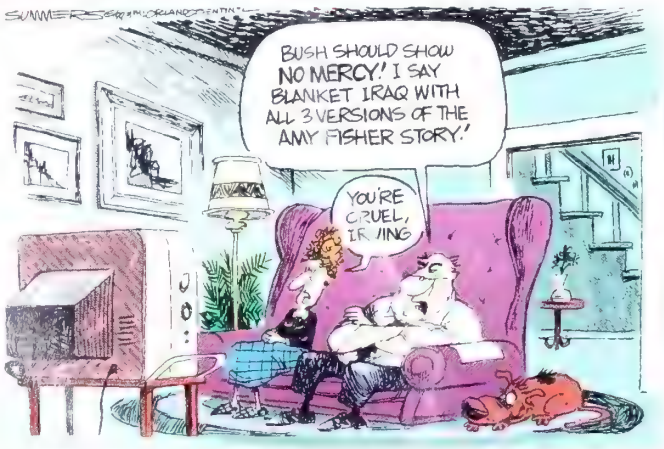
It has also become convenient for debtors to blame their computers, says Kirschbaum. Maybe soon the excuse of choice will be: "The check is in the modem."

SEARS LOGS OFF FROM ITS COMPUTER OUTLETS

▸ Sears Roebuck announced on Jan. 13 that it's selling its 49 Sears Business Systems Center computer outlets to InaCom Corp. for an undisclosed price. Sears Business Centers' 1992 revenues of some $510 million will make Omaha-based InaCom one of the top three U. S. computer dealers. InaCom should inherit a Pentagon computer-supply contract worth as much as $400 million.

WERE VALUE CARS LESS THAN A BARGAIN?

▸ Did the former owners of Value Rent A Car gouge customers who returned cars with less than a full tank of gas or banged them up in accidents? That's what a federal grand jury in Fort Lauderdale, Fla., charges. The panel on Jan. 8 indicted Sidney Cohen and his sons, Jeffrey and Steven, on charges of defrauding customers with bogus gas and repair bills. All three pleaded innocent. The Cohens sold Value to Mitsubishi Motor Sales of America for $64 million in 1990.



EDITED BY STEPHEN H. WILDSTROM

THE S&L MOP-UP WILL TEST CLINTON'S METTLE ON THE HILL

When George Bush moved into the White House four years ago, one of his first challenges was clearing away the wreckage of the savings and loan indusry. It turns out Bill Clinton will find himself in the same sitation. Treasury Secretary Nicholas F. Brady lists the thrift leanup as his proudest accomplishment. But in fact the job is ar from finished.

The effort to close and sell off insolvent thrifts has been in mbo since last spring. That's when fear of voter retaliation rompted a bipartisan majority in Congress to refuse to exend funding for the Resolution Trust Corp., he government agency set up to handle he salvage operation. The RTC, which has lready run through $87 billion in taxpayer unds, found itself without money to shutter 1 insolvent institutions. The delay is driving p the final cost of the cleanup by $6 million day.

If Clinton wants to stop the bleeding—and t's not clear that the issue is high on his riority list—the task will bring an early est of the new President's mettle in dealing vith Congress. In the House, 86 returning Democrats refused to vote for either of the RTC bills that came to the floor during the ast Congress. And many of the 63 Democratic freshmen vowed during their campaigns not to spend a penny on the thrift cleanup. A vote on simple funding bill "would be real tough," predicts Karen D. Shaw, a Washington banking consultant.

NEAL: CHASING FUNDS FOR THE RTC

HOT POTATO. The Administration can't look for help on the other side of the aisle. Republicans were reluctant backers of the leanup, even when it was Bush asking for the money. Now, Minority Whip Newt Gingrich (R-Ga.) has threatened to withhold GOP support in retaliation for rules changes that expanded the Democratic majority's control over the House.

Clinton may not want to invest much political capital on the ssue while he focuses on broader economic decisions and foreign affairs. But he could pay a steep political price for delay. "If Clinton moves now, it's Bush's problem," notes a Democratic Senate staffer. "If he waits, it can become his problem."

By failing to push the issue early, the White House will only make it tougher to replenish the RTC's coffers. Representative Stephen L. Neal (D-N. C.), chairman of a key House banking subcommittee, says he won't ask for a floor vote—until he holds hearings designed to impress new members with the importance of paying off insured depositors. Otherwise, "I don't see how we could even get it out of committee," he admits.

BUNDLE BUNGLE? Neal is mulling several options for getting a funding measure through Capitol Hill. One, designed to gain liberal support, would mandate an overhaul of the RTC's sales and management practices. Critics charge that the agency's strategy of accelerating asset sales by bundling properties for big buyers prevents small investors from bidding. Another option, Neal says, is to attach RTC funding to a more popular spending measure, such as an infrastructure bill.

If the legislative stalemate continues into the fall, lawmakers would have another remedy—tapping the $30 billion line of credit Congress approved in 1991 for the Federal Deposit Insurance Corp. That money, which would probably be enough to finish the cleanup, was intended to cover expected bank failures that haven't materialized. But next Sept. 30, the RTC's authority to seize failing S&Ls expires, and the FDIC takes over that job. Commercial banks, which have always feared they'd end up paying for the thrifts, one way or another, would be responsible for replenishing the fund.

Bankers will fight hard against any use of FDIC money. But unless lawmakers show more backbone than they have of late, tapping the insurance fund may be the only way the government can bankroll the last act of the sorry thrift spectacle.

By Dean Foust

CAPITAL WRAPUP

THE JUDICIARY

There aren't many things about the Bush Administration that Bill Clinton wants to emulate, but he is likely to retain Bush's system that gives the White House Counsel's office, not the Justice Dept., control over judicial appointments. Following the Bush model, a deputy counsel probably will be in charge of the process. Denver attorney James M. Lyons, who chaired a national lawyers-for-Clinton campaign committee, is a leading candidate for the post. Keeping the process in the White House will make it easier for First Lawyers Bill and Hillary Clinton to become deeply involved. They'll be busy: The new Administration is inheriting more than 100 judicial vacancies, and with turnover running at 7% a year, Clinton could name 40% of all judges in one term.

POLLS

Clinton takes office with a lot of public goodwill, but perils loom. A new joint survey of 1,000 Americans by Tarrance Associates, a GOP outfit, and Greenberg-Lake, which polled for Clinton, found that 84% of the public approved of the way Clinton has handled the transition. The difficulties may come in the area of expectations. Two-thirds of those surveyed expect his policies to make a difference in economic performance, and a hefty majority think he'll accomplish much of what he has promised. The public also backs Clinton's recent emphasis on trimming the budget deficit. While 62% support Clinton's economic program, only 35% of respondents said they would back it if it increased the deficit. Asked what would do most to boost the economy in the long run, 24% said better job training, 15% called for deficit reduction, and 12% wanted a crackdown on unfair trade practices. Only 9% went for transportation infrastructure programs and 5% for a middle-class tax cut. Meanwhile, the poll also found that George Bush has rebounded to a 57% favorable rating.

BRITISH AIR: NOT CRICKET

In his 50-year career in British business, John L. King was known for being publicly charming and privately cunning. Sir Colin Marshall had a reputation as a shrewd survivor of executive-suite battles. The two men came together in 1983 to run British Airways PLC, the privatized flag carrier that had grown shamefully fat and unprofitable. As the detail man who oversaw layoffs and restructurings, Marshall helped whip an obese, second-rate carrier into the world's most profitable airline.

But the airline's reputation and possibly Marshall's future may be in danger. After a yearlong war of words, BA on Jan. 11 admitted in court to waging a dirty tricks campaign against a much smaller rival, Richard Branson's Virgin Atlantic Airways Ltd. (table). The details of the campaign, including computer break-ins and lying to passengers, have shocked investors, longtime customers, employees, and the company's directors. Some board members, say sources, are demanding an investigation into Marshall's role in the scandal. And they may seek to check his power by imposing a nonexecutive chairman over him after King, 75, retires in July. King will retain the title of life president, but he had been prepared to relinquish the chairman's mantle to Marshall, who is 59.

The questions come at a particularly sticky point for BA. The carrier is in the midst of a campaign for global growth. But in recent months, it has suffered from a string of miscalculations and reversals that could be exacerbated by further scandal. It had to withdraw a $750 million bid for 44% of USAir after it became clear the U. S. would not approve the deal. BA is preparing a new bid, but the scandal can only hamper its efforts and supply U. S. carriers with further ammunition to rail against a BA incursion. Government officials on three other continents where BA is negotiating to buy all or parts of airlines could also decide BA is not the kind of competitor they want to invite in.

BAD BLOOD. Meanwhile, British Airways' profits are under pressure. Following disappointing traffic figures, analysts in early January cut BA's earnings estimates for the year ending Mar. 31. BA's stock is down 10% since the beginning of the year, to 42⅛. There could be more legal woes, too, demanding further investment of time and money. Branson may bring another action. And Scotland Yard is investigating a series of break-ins that Branson alleges were committed by BA security staff.

The dispute between the two carriers goes back several years. With 8 planes to its rival's 230, Virgin might seem little more than a minor nuisance to the huge BA. But Branson's cocky style—combined with real inroads that Virgin made into BA's transatlantic business—hit a nerve with Lord King. After the British government forced BA to give up some Tokyo routes to Virgin, for example, Branson dressed like a pirate for a kabuki-like play and pretended to steal a BA plane at Heathrow Airport to inaugurate his Tokyo service.

According to court documents, the irksome rivalry drove BA to tap into Virgin's computer for passenger and flight information that it used to poach passengers. Affidavits also detail break-ins at the homes of Virgin employees and ef-

BRANSON HAS PREVAILED IN ONE SUIT AND MAY PURSUE FURTHER LEGAL ACTION

orts to dig up dirt on Branson and get : into the media. Branson complained ublicly about a dirty tricks campaign /hile it was happening. But when Brit- sh Airways labeled his allegations in a ompany newsletter as "unjustified, mis- hievous, and motivated by a desire to ecure publicity," Branson sued for libel.

Officially, BA considers the case closed ow that it has apologized to Branson nd agreed to pay $2.5 million in dam- ges and legal fees to end the libel suit. ınd technically, BA admits only to im- ugning Virgin's and Branson's reputa- tions, without admitting to specifics. It remains unclear who at BA sanctioned the campaign.

But rather than let the matter drop, some institution- al shareholders are pressing on with further questions. One manag- er of a large British pension fund ays he is seeking a meeting with BA fficials "to get to the bottom of this. Ve want to know just how involved they vere." And industry experts say BA may ıave lost credibility with regulatory offi- ials who have long protected it at home rom competitors seeking licenses, outes, and airport slots, hoping such avoritism would boost the flag carrier n its globe-trotting endeavors.

OWERFUL CRITIC. At BA's next board neeting on Feb. 5, at least two outside lirectors will demand a full investiga- ion, according to a source close to the oard. "The board is angry and embar- assed" and wants to know if the cam- aign was sanctioned by King and Mar- hall or whether the anti-Virgin ctivities took place without their knowl- dge, the source says. "Either way, Lord King and Sir Colin have some explaining o do."

One of the two directors considered nost likely to lead the charge is Sir Mi- hael Davies, a nonexecutive director of wo small British companies, Calor Group PLC, an oil and gas marketing company, and Perkins Foods PLC, a food processing company. Prior to the Virgin troubles, Marshall informed the board that he would seek the title of chairman, in addition to CEO, when King steps down. But other board members support Davies, 58, as a nonexecutive chairman to oversee Marshall—a precaution against lodging too much authority under one person that has become popular among British companies.

Another potential critic on the board is Sir Michael R. Angus, a titan of British industry, who was Unilever Group's chairman until last May and now is chairman of brewer Whitbread PLC. He is also president of the Confederation of British Industry, the official voice of British big business. Angus is said to be working with Davies to launch an investigation. He is especially interested in the version of events presented by public-relations consultant Brian Basham, who was retained by BA for the alleged purpose of planting negative news stories about Branson. BA's statement blames Basham and other unnamed employees for the anti-Virgin activities. But Basham claims that all his actions were authorized by BA's board. The consultant was not a defendant in the legal action.

Davies and Angus both declined to comment. Basham was in Africa and could not be reached for comment, and his lawyer did not respond to phone calls. And BA is declining to respond to press questions about who knew of the various secret operations. BA spokesmen will only repeat that the board was not "party to any concerted campaign." Instead, an investigation "revealed incidents involving our employees which we accept were regrettable." BA says it is taking action to ensure that such incidents do not occur again.

It's too early to tell how passengers will react to recent events. Branson is publicly urging travelers to shun the airline. One longtime BA customer, business professor Michael R. Hodges, says: "It seems to me BA, always singing the virtues of competition, was using unscrupulous behavior to put out of business a rival, and a much smaller one at that."

Much of the expected fallout is probably beyond BA's reach. Branson soon will decide whether to take further legal action. One option: an antitrust lawsuit in the U. S., where some of BA's dirty tricks took place. Branson could also file anti-competitive charges in the European Community court.

SUSPICIOUS DEATHS. But BA may feel some of the earliest repercussions right at home. Its purchase of financially strapped Dan-Air Services Ltd., a London-based charter service, soon will come up for review by EC competition authorities. Legal documents filed with Britain's high court allege that some of the BA dirty tricks activities also were aimed at Dan-Air and another defunct carrier, Air Europe Ltd. "Four small airlines have gone under in the last decade," says Hugh Wellborn, a 20-year BA employee and now an industry consultant who has advised Virgin in the past. "Now everyone is wondering: Was their demise hastened along by British Airways with practices similar to those aimed at Virgin?"

What a change. Just a few months ago, BA was sitting on top of the world with $400 million in annual profits and ambitious plans to merge operations with USAir. Now it looks as though BA's woes are just beginning as investors and board members demand the full story. Lord King could end a brilliant career with a question mark over his head. And Marshall, his protégé, will have to convince a lot of people he deserves to have the top job.

By Paula Dwyer in London

ITISH AIRWAYS' DIRTY-TRICKS CAMPAIGN

paying $2.5 million to settle a libel suit by Virgin Atlantic owner Richard son. BA admits it engaged in a broader campaign against Virgin, but won't nent on specific actions that allegedly included:

IPUTER BREAK-INS BA staff tapped into Virgin's computers to get es and numbers of Virgin passengers

SENGER POACHING BA "hunters" phoned or met Virgin passengers, ly claimed their flights were delayed or overbooked, and offered induce- s to fly with BA

RATION COVENT GARDEN Chairman Lord King's personal security offi- rchestrated break-ins of homes and cars of Virgin staff and journalists; land Yard is investigating the break-ins

RATION BARBARA BA's code name for work by a London public-rela- consultant hired to dig up dirt on Branson and plant negative news stories

DATA: COURT DOCUMENTS

CEO MARSHALL'S FUTURE AND BA'S REPUTATION ARE ON THE LINE

SHIPBUILDING IN BEIZENBURG: BAD TIMES ARE STARTING TO PERSUADE UNIONS TO MODERATE DEMANDS

GERMANY

KOHL PRODS THE GIANT

To heal the economy, he asks for sacrifices—and holds his breath

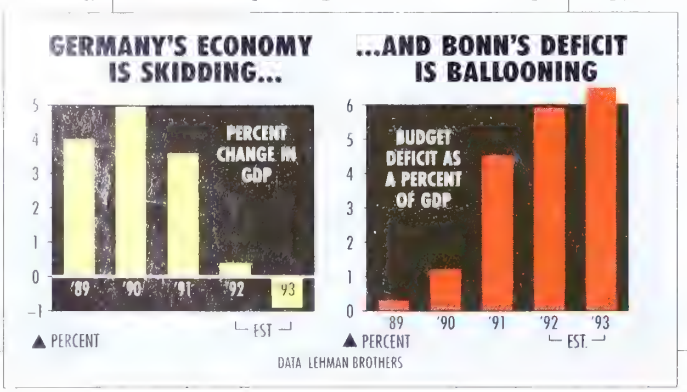
On a cold January morning in Berlin, the outlook for the new year is grim. By 9 a.m., hundreds of anxious job-seekers have already gathered in the city's nine unemployment offices, filling waiting rooms with a haze of cigarette smoke. Since Germany's unification, east Berlin's unemployment rate has climbed close to 13%. And to many of Berlin's new jobless, Chancellor Helmut Kohl is to blame. "He is letting the smaller people down," grieves Detlef, a 34-year-old warehouseman who lost his job a year ago.

Berlin laborers aren't the only ones pointing fingers at Kohl this winter. As a $100 billion-a-year reunification bill and painfully high interest rates push Germany into its worst slump in a decade, industry chiefs, economists, and European allies from Ireland to Italy are pleading with the burly Chancellor to get on the stick. "Our markets are sliding away," says Hans-Jürgen Marczinski, managing director of Thyssen Maschinenbau, a leading machine-tool maker. "There should be less blather and more action."

Until recently, such calls had gone unheeded. But in past weeks, Kohl finally appears to have awakened. Mindful that America's prolonged recession swept George Bush from office, Kohl is mounting a swift offensive to rescue the economy and save his Conservative coalition government—and himself—from possible defeat in 1994's state and federal elections.

JUICY BONE. By late January, Kohl hopes to have forged an ambitious "solidarity pact" among federal, state, and local governments and unions, industries, and banks. To get what he wants, the Chancellor has been summoning opposition and labor leaders to his Bonn residence for private dinners lasting well into the night. Showing he's willing to deal, Kohl recently tossed his Social Democratic Party opponents an important bone: continued federal subsidies for the core of eastern Germany's state industries. But the Chancellor also argues that Germans must accept painful cuts in social programs and a loss of real income after a decade of steady growth. He maintains his pact is vital to preserve Germany's sagging competitiveness, accelerate the slow recovery of the formerly Communist East, and help foot the staggering cost of unification. Without an accord, Germany—and Kohl's dream for an economically and politically united Europe—is sure to founder.

A solidarity pact has been needed only twice since 1945 to propel Germany out of dangerous economic shoals. But Kohl has ample reason to



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seek such drastic action. In this winter of discontent, Bonn's federal budget deficit is mushrooming (charts). With industry orders and production falling (table), economists see German gross domestic product dropping more than 1% in 1993 after expanding a meager 1.5% the year before. If unemployment continues to mount, violent attacks on foreigners by right-wing radicals could worsen. For these reasons and more, Kohl is likely to win his pact. Even Social Democratic leader Bjorn Engholm concedes that "if we work at odds [with one another], nothing will move at all."

RATE CUT? Kohl's deal, involving a commitment to slash federal spending and cap wage increases, would pave the way for the Bundesbank to cut Germany's 8.6% short-term interest rates, perhaps by as much as 2.5 percentage points, beginning as early as February or March. That could ease pressure on France and other neighboring economies, restore stability to Europe's currency system, and even bring the German recession to a close by yearend. "With a cut in rates, we would see a black cloud lifted," says Robert Faircloth, chief operating officer of British conglomerate BTR PLC.

Hints of Kohl's new deal are emerging. Inflation averaged 4% in 1992. But Germany's dire straits are beginning to persuade unions to moderate wage increase demands. The powerful metalworkers' union I. G. Metall, for example, has agreed to a mere 3% increase this year, and public-sector negotiations for 1993 are also likely to come in around that level. Such moderation, says economist Richard Reid of UBS Phillips & Drew, could allow inflation to decline to 2.1% by 1994.

Keeping labor costs down in eastern Germany will be a thornier affair. Eastern wages are skyrocketing under a lavish post-unification deal to ratchet them up to western levels as soon as 1995. April's scheduled increase for eastern metalworkers alone is 26%. But with eastern productivity only a third of that in the west, such a jump would deal a death blow to hundreds of money-losing machinery makers. "You might as well close their doors today," says Otto Lambsdorff, head of the the governing coalition's Free Democratic Party.

So far, I. G. Metall has refused to renegotiate the eastern deal. But with 3 million easterners out of work, government officials expect the union soon will have to accept a compromise exempting ailing companies from the wage increase and allowing them to strike their own pay deals. Such a crack in Germany's broadly binding industrywide contracts could even give employers leverage to forge similar agreements in the west and win new flexibility in work rules.

With labor expected to accede to his pact, Kohl is stepping up the squeeze on state and federal coffers. He is seeking deep budget cuts, including $5 billion to $7.5 billion in a supplemental budget for 1993 and $19 billion to $31 billion over the next three years. That will mean revamping Germany's cradle-to-grave social security system. "The government wants to take an ax not only to a branch of the social welfare system, but to the entire tree," fumes Socialist Engholm.

But Kohl maintains that there's fat to trim. A four-person eastern household on welfare, for instance, receives $1,420 a month, $100 more than the net income of a working family. Kohl proposes cutting jobless benefits in the east and west by 3% and then freezing them for several years. He warns that income taxes will have to rise by 10% in 1995.

To win public support, Kohl will soon take to the airwaves. He plans six TV shows patterned on the fireside chats of Franklin D. Roosevelt and the radio pep talks of former Chancellor Ludwig Erhard, who coaxed Germans into performing an economic miracle during the 1950s. Kohl is also counting on a political boost from an expected Cabinet reshuffle. Newly designated Economics Minister Günter Rexrodt, a former Citibank executive and Berlin finance minister, likely will accomplish more than predecessor Jürgen Möllemann, who resigned amid an influence-peddling scandal.

VW LAYOFFS. Even if Kohl wins over politicians and workers, convincing industry to step up investment will still be a Herculean task. Kohl will try to boost private investment in the east by increasing incentives. But, slammed by the slump in western Germany and brutal competition in Asia, manufacturers no longer have the luxury of doing what the Chancellor asks. With sales languishing, Volkswagen is delaying a $1 billion addition to its eastern car plant in Zwickau and Daimler Benz is putting off a truck plant in Berlin. Machinery maker Metallgesellschaft is even shutting down an eastern plant it bought from the government only a year ago, although that might subject the company to penalties. And many companies are moving production to the Czech Republic, Hungary, and Poland, where wages are 10% of German levels.

Manufacturers are equally reluctant to invest in the west. VW, for example, may slash its 1993 capital spending in half, to around $3 billion. It's also shedding 30,000 of its 273,000 workers this year alone. Daimler Benz is also trimming its labor force. Even sectors that had been shielded from the downturn are being buffeted. Although the fourth quarter is usually the biggest period for software maker SAP, for example, 1992's final months fell far short of company expectations.

More pain lies ahead as Kohl struggles to get his once-vibrant economy to shake the reunification blues. Imbued with a strong sense of fiscal discipline, Germans prefer to hear the truth even if it's unpleasant. Twice before in the postwar years, they listened. For the sake of Germany, Europe, and the global economy, they are close to doing it again.

By Gail E. Schares in Bonn, with Deborah Wise in Berlin and Bill Javetski in Frankfurt

WHAT'S AHEAD FOR GERMAN INDUSTRY IN 1993

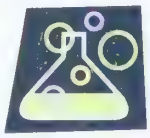
AUTOS
Drastic sales declines

CONSTRUCTION
East Germany keeping things busy

BREWING
Going flat after East German boomlet

RETAILING
Nervous consumers are staying home

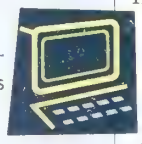
PAPER
Market under intense pressure



CHEMICALS
Plants slowing down

STEEL
In deep crisis due to auto slump

ELECTRONICS
Computers, telecommunications stagnating



DATA BANK JULIUS BAER (DEUTSCHLAND)

Even if all else goes well, getting industry to step up investment will be a Herculean task for Kohl

The boundless blue
of a Paris morning.
The amber iridescence
of Rio de Janeiro.
The solid granite grey
of Wall Street.
The indigo hues
of an Asian sea.
The radiant red of
an Australian sunset.

We now embrace th
the new colors o

olors of the world as
Jnited Airlines.

In celebration of a new style of service at home and abroad, we are proud to unveil the new colors of the friendly skies.

hey are the colors of the world we have come to serve. A world of 318 United cities across the United States, sia, the South Pacific, Europe and Latin America.

And as we have grown, so too has our dedication to offering you the finest service in the world. A dedica-on reaffirmed by the recent introductions of our newly designed First and Connoisseur Class℠ service.

Our new colors now herald an era of even greater commitment to all who fly the friendly skies of United. ome fly the airline that's uniting the world. Come fly the friendly skies.

UNITED AIRLINES

STRATEGIES

HUMANA WHEELS ITSELF TO SURGERY

It thinks recovery hinges on becoming two separate companies

David A. Jones has always been quick to respond to opportunities. Two decades ago, the Humana Inc. chief executive and co-founder Wendell Cherry transformed Humana from the nation's leading nursing-home operator into a top hospital chain. Then, in 1983, they started a health-insurance business to help fill Humana's beds. The goal was to create an integrated health-care provider.

Now, Humana, based in Louisville, is undergoing yet another metamorphosis—this one prompted more by perils than opportunities. The strategy that Humana so zestfully pursued in the 1980s has turned against it. Hospital admissions are down. Enrollments in its health plans have stalled. And company earnings are plummeting (charts). To recover, Jones has proposed some radical surgery: splitting Humana apart. If, as expected, shareholders approve the plan at the Feb. 18 annual meeting, Humana will focus solely on health insurance, while its hospitals will be grouped into a new corporation, Galen Health Care Inc.

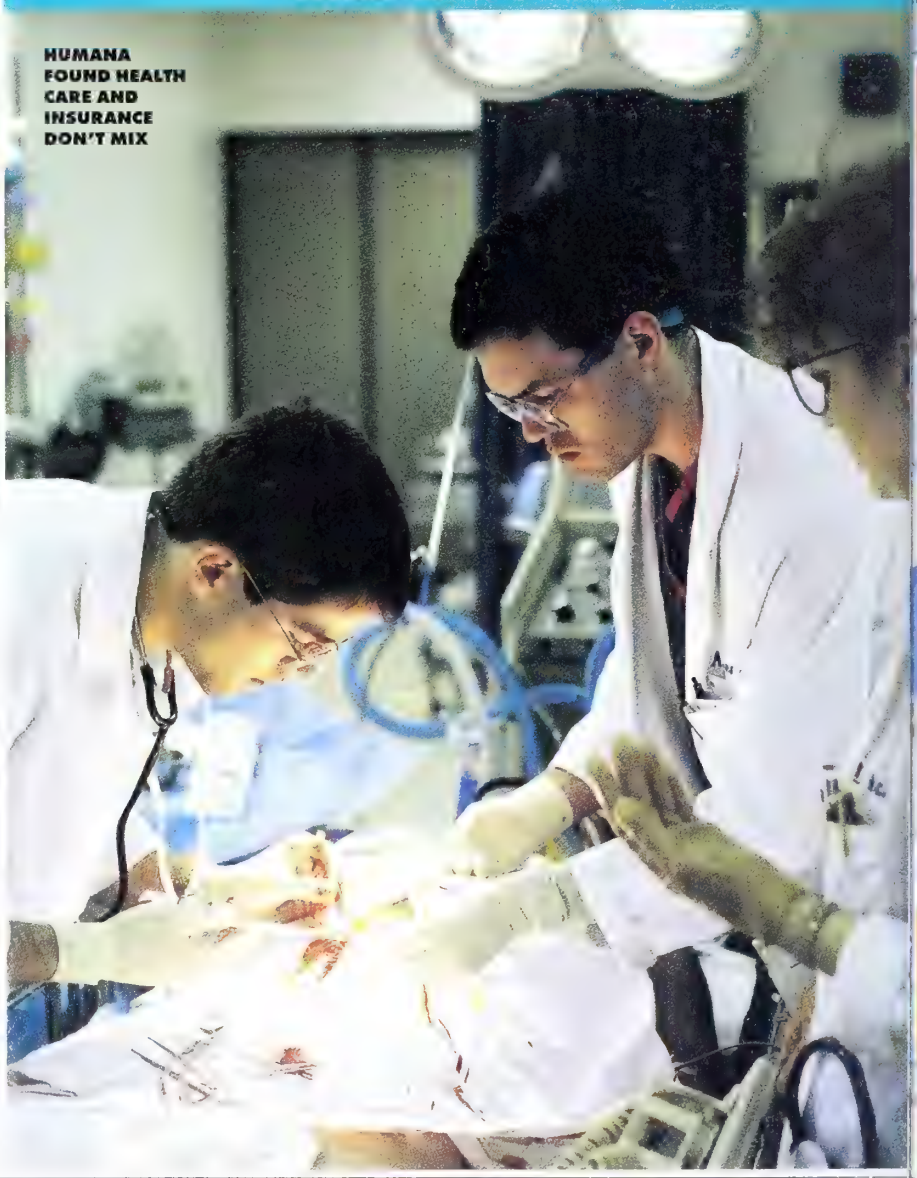
START SLASHING. Still, it remains to be seen whether Humana and Galen can solve their problems by going their separate ways. Carl F. Pollard, Humana's current president and Galen's would-be CEO, must rebuild admissions and earnings at a time when health-care providers are under pressure to restrain prices. For his part, Jones, 61, who will head the insurance business, must slash its steep overhead and medical costs. Excluding special charges, it earned only $4 million in fiscal 1992 on revenues of $2.8 billion.

What's more, the two executives must attempt their turnarounds under the cloud of a federal grand jury investigation. U. S. prosecutors, probing widespread corruption in the Kentucky state legislature, have subpoenaed documents from Humana as part of an inquiry into whether local lawmakers sold favors to special-interest groups. Jones has said Humana itself isn't a target of the investigation. Still, he fired the company's senior vice-president for public affairs, George L. Atkins, last September for an unspecified violation of corporate policy that turned up as a result of the subpoena. Although Jones said he didn't believe anyone had broken the law, he has begun an internal investigation.

Company officials are tight-lipped about the U. S. investigation, but they're quite ready these days to admit the shortcomings of their vertical-integration strategy. In the end, there was a clear contradiction: Health plans aim to cut usage and costs, while hospitals attempt to increase admissions and revenues. As a result, Humana's two operations were hurting one another. "As we began to control costs, we began to experience problems on the hospital side," concedes W. Roger Drury, Humana's chief financial officer.

Physicians, vital when it comes to referring patients to hospitals, often felt squeezed by Humana's competing interests. Many doctors were angered when Humana's health plans—nearly all of which are HMOs or other forms of managed care—started clamping down on charges. At the same time, they felt

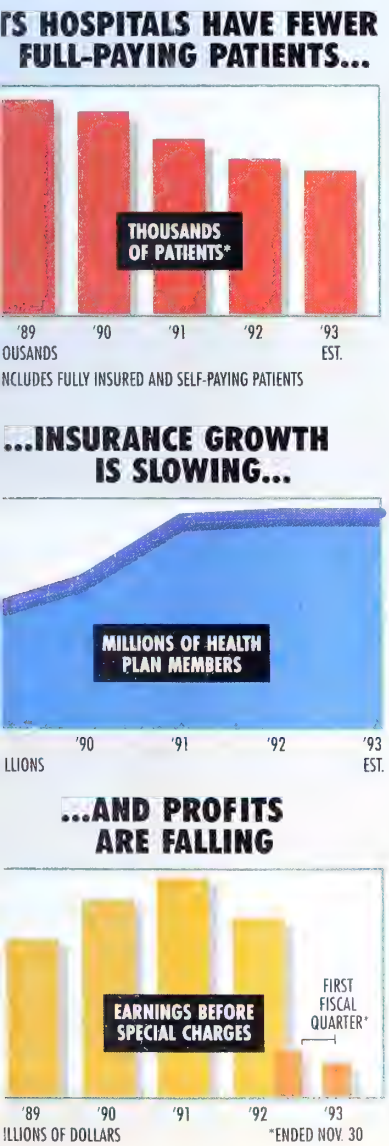
WHAT AILS HUMANA



HUMANA FOUND HEALTH CARE AND INSURANCE DON'T MIX

nat their fully insured patients were eing forced to pay hefty hospital rates o offset the discounts received by othrs enrolled in Humana health plans. Iany retaliated by taking business elsehere. "There's no question physicians, ncluding myself, didn't do as many [lab ests] there because they perceived nird-party insured patients were subsiizing the health plan," says Dr. Randall . Bell, who just stepped down as chief f staff at Humana Hospital-San Antonio.

Even some patients rebelled against lumana after ABC News aired allegaions in 1991 that its hospitals were vercharging. For example, the report aid Humana was charging $11.80 for a 0¢ thermometer. Congressional inquiries nto whether the company was gouging atients and overcharging the medicare rogram fueled the negative publicity. lumana insisted that its pricing was in ne with industry practice and that with ridespread discounting, few people end-



ed up paying such huge markups. Still, admissions soon sagged.

Humana's health-insurance business didn't fare much better, largely because of its high medical costs and overhead. Administrative costs, such as claims-processing and marketing, stood at almost 15% of total expenses in fiscal 1992, compared with an HMO industry average of 11%. To maintain margins, Humana raised rates by an average of 10% last year, frightening away potential customers.

Faced with the prospect of further disappointments, Jones and his management team spent much of early 1992 reexamining their strategy. In July, they proposed a breakup. The board approved a plan in August in which stockholders would receive a share in Galen for every share of Humana.

JONES AND POLLARD: A FEDERAL GRAND JURY PROBE COMPLICATES MATTERS

Splitting apart surely will eliminate the tensions that arose as Humana pursued both the hospital and health-plan businesses. Rival health insurers say they're more likely to do business with Galen. And as an independent company, Galen—named after the early Greek physician and one of the fathers of medicine—will try to repair its relations with doctors. Already, administrators are beginning to "discuss with doctors the reason they're mad at us," says Richard A. Schweinhart, Galen's future CFO.

DISCOUNT OPERATIONS. To increase admissions, Galen will also have to fight the perception that it has high prices. In Louisville, Humana hospitals slashed prices last summer by as much as 35% on a wide range of services, from outpatient fees to open-heart surgery, in an effort to win back customers.

Those price cuts, though, come at a time when cost pressures are bound to intensify as managed-care plans and the government seek to hold down spending. "We think margins will be under pressure," Schweinhart allows. "If we could just maintain them, we'll be tickled pink." Sanford C. Bernstein & Co. analyst Kenneth S. Abramowitz estimates Galen's profits could drop 11% this fiscal year, to $254 million, on a 1% revenue rise to $4.1 billion. To cut overhead and help the bottom line, Galen has already shed some staff and might sell some of its 77 hospitals.

While Galen struggles, Humana may fare better as it focuses on health-care plans. More corporations are already moving toward managed-care programs to cut costs. Most analysts believe that Humana and other health-plan providers will also be helped by the policies of the incoming Clinton Administration, which favors some form of managed-health-care competition.

Humana will receive one important boost from an increase in medicare reimbursements. After years of smaller increases, the Health Care Financing Administration is giving a 12% price increase this year to Humana on medicare contracts, which account for 39% of the company's health-plan revenue. Analyst Abramowitz believes overall revenues will rise 12%, to $3.1 billion, in fiscal 1993, with earnings expected to rise sharply—albeit to a still-disappointing $25 million to $30 million. Humana may try to buy other health plans with the $385 million in cash and notes it would receive as part of the breakup.

Even if Humana can regain its earnings luster, though, it may yet be tarnished by legal problems. Last November, a Kentucky newsletter that focuses on state politics reported that former executive Atkins was fired because of a payment he made to former state Senator Helen Garrett. George Salem Jr., Garrett's lawyer, acknowledges that she was paid $5,000 by the company in 1991 for a report she did after leaving the state legislature on Humana's relationship with that body. Garrett was one of two state senators who changed their vote in 1990 to repeal state regulations governing hospital construction and capital expenditures. Humana had lobbied hard for the repeal. Garrett had opposed the measure earlier.

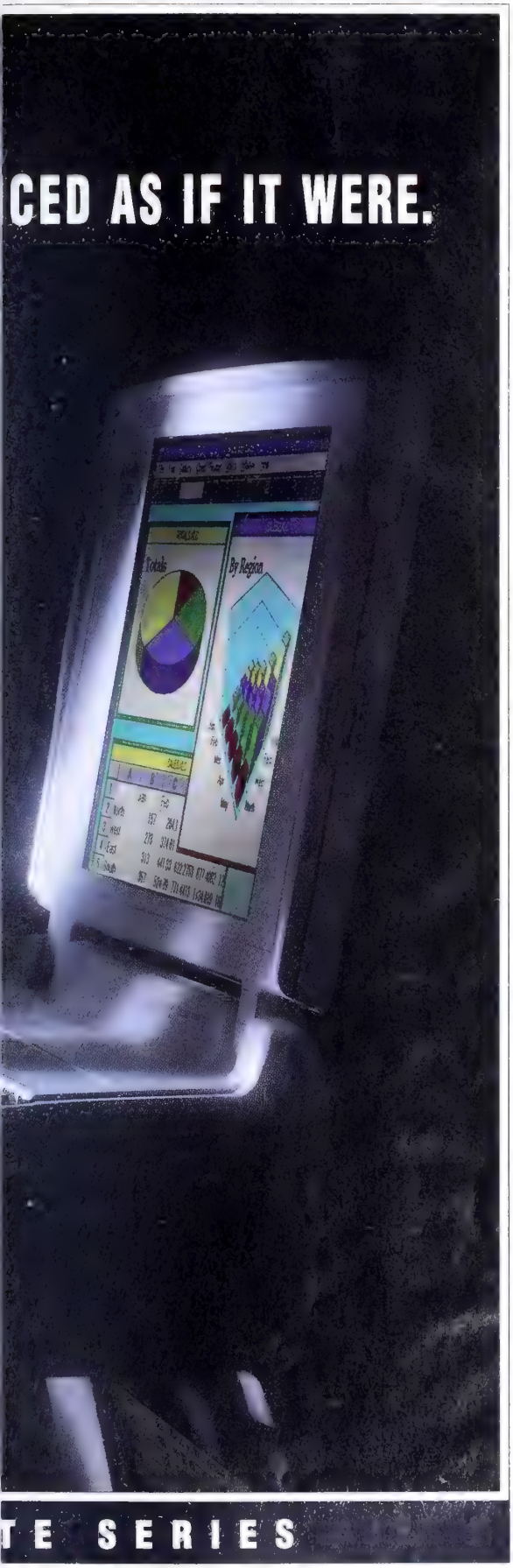
Last year, Garrett and seven others, including four former state lawmakers, pleaded guilty to accepting money from the horse-racing industry to influence legislation. Salem denies there was anything improper about the payment and says Garrett changed her vote to allow a non-Humana hospital in her district to expand services. Atkins' attorney says that his client "is not guilty of any misconduct." Humana won't comment, citing its cooperation with the grand jury.

Whatever the outcome, the plans for splitting Humana won't be affected. True, there's no clear evidence that Humana's offspring will succeed where the parent failed. But Jones, who is quick to react to opportunities, is convinced that a breakup is the best hope for resuscitating Humana's bottom line.

By Zachary Schiller in Louisville, with bureau reports

ENGINEERED AS IF MONEY WAS NO OBJEC

INTRODUCING THE TOSHIBA SAT



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A lot of features for a little money makes the Satellite series one of the best values in portable computing

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TRANSPORTATION

MORRIS AIR IS STARTING TO SEE THINGS ON ITS RADAR

Delta and other rivals are gunning for the tiny, low-cost carrier

June M. Morris has a plan. The chief executive of tiny Morris Air Service in Salt Lake City is offering passengers rock-bottom fares with minimal in-flight service to 27 Western cities. The flights are mainly short-haul, and the only way to get a ticket is to have your travel agent call the airline, or call Morris Air yourself. Sound familiar? It's a chapter out of the book written by Southwest Airlines Co., which has used a similar formula to become the only consistently profitable carrier in the U. S. "We're modeling ourselves after Southwest," says Morris. "Like them, we have one type of aircraft and short-haul routes."

But Morris is finding that becoming another Southwest isn't as easy as it looks. Morris Air spent eight years as a charter carrier and was not a direct competitor of major airlines in its territory. But no sooner did Morris take the plunge and convert to scheduled service in November than rivals started closing in. Delta Air Lines Inc. dropped leisure fares by up to 50%, pared business fares more than 60%, and offered double frequent-flier miles to sweeten that. Even Greyhound Lines Inc. lowered prices on a key destination out of Salt Lake City.

'OH, RATS.' Such tactics could slow Morris' ambitious plans to bump revenues to $200 million this year, from $140 million. The privately held company has been profitable every year except one, she says, and that was early in its history. "We don't worry about Greyhound," says Morris. And Delta? "Sure, we're concerned," she says, although she notes that Delta's $84 one-way fares are often a good 25% higher than Morris Air's. "If the majors match us, they lose money every day while we make money."

Price isn't the only thing Morris Air has going for it. Morris, 61, the only woman CEO of a jet-service airline, has a long history dealing with customers in the travel business. Her first job was marking up travel routes on maps for the American Automobile Assn. In her 40s, Morris opened a small travel agency in a corner of her husband's photo-finishing office. By courting big corporate customers, she built it into the biggest in Utah and the 25th-largest in the U. S. When she decided to diversify into vacation packages, Morris chartered planes to save money. The charters did so well that Morris sold her travel agency to concentrate on the airline full-time.

Even on no-frills Morris Air, that customer focus has remained. Just before Thanksgiving, a blizzard hit Salt Lake City, delaying flights for hours. Fifteen Los Angeles-bound Morris Air passengers were going to miss connections on other airlines to Hawaii, and travel agents were refusing to swap their nonrefundable tickets for later flights. Morris and her son, Richard W. Frendt, the airline's chairman, rushed to the airport and sweet-talked United Airlines Inc. and American Airlines Inc. agents into rerouting the passengers. By nightfall, 11 were in Hawaii, and the rest arrived the next day, after spending a night in a San Francisco hotel at Morris Air's expense. Says Morris: "You do what you have to do."

That's the kind of thing Morris will have to keep doing to prevent customers from defecting to Delta, where they can get frequent-flier miles, not to mention meals. Morris argues that with her carrier's focus on leisure travelers, and Delta's on business customers, the two should not have to fight for passengers. But that hasn't stopped her from scrapping with Delta. When Delta doubled mileage credit, "we said, 'Oh, rats,'" Morris recalls—and responded with $29 companion fares. When Delta gave travel agents free tickets, Morris dispensed gift certificates at local department stores.

But Delta intends to keep up the heat. Salt Lake is Delta's third-largest hub, and to make it pay, it needs not only passengers flying through the hub or into the city from distant points: It must attract the travelers who live there—business or otherwise. "We want every single passenger who gets on a plane in Salt Lake City," says spokesman Neil Monroe. "The fares we put into the market to compete with Morris are not economically justified. They are strictly a competitive response."

The tiny airline can expect more

WHAT IS MORRIS AIR?

STRATEGY Become a Western version of Southwest Airlines, offering low fares on short-haul flights

DESTINATIONS 27 U.S. and Mexican cities from Salt Lake hub

COMPETITORS Delta, Alaska Airlines, Greyhound Lines

FLEET 14 Boeing 737s **EMPLOYEES** 800 **1992 REVENUES** $140 million*

*ESTIMATE

MORRIS: "IF THE MAJORS MATCH US, THEY LOSE MONEY EVERY DAY"

Don't lose another hair without getting the medical facts:

Take 2 minutes to learn about your best chance to regrow hair.

ROGAINE® Topical Solution (minoxidil 2%) is the only product ever proven to regrow hair. So isn't it worth your time to find out about it—even if it gets a little technical?

How hair grows:

Hair grows in cycles. There's a growth phase, then a resting and shedding phase. Usually, everyone loses some hair during the shedding phase. But male pattern baldness (androgenetic alopecia), the most common form of hair loss in men, is different. It shortens the hair's growth phase. So hair grows less and rests longer, resulting in thin hairs that are barely visible. Eventually there is no growth at all.

How Rogaine regrows hair:

ROGAINE works in part by prolonging the growth phase. With more hairs growing longer and thicker at the same time, you may see improved scalp coverage.

No one can predict how well ROGAINE will work for you. But research suggests that patients having a large number of growing hairs (at least 3/8 inch or longer) seem to have a better response.

Dermatologists conducted 12-month clinical tests. After 4 months, 26% of patients using ROGAINE reported moderate to dense hair regrowth, compared with 11% of those using a placebo (a similar solution without minoxidil—the active ingredient in ROGAINE). After 1 year, 48% of the men who continued in the study using ROGAINE rated their regrowth as moderate to dense. Thirty-six percent reported minimal regrowth. The rest (16%) had no regrowth.

Side effects were minimal: 7% of those who used ROGAINE had itching of the scalp. ROGAINE should only be applied to a normal, healthy scalp (not sunburned or irritated).

Make a 4 to 6 month commitment to see results:

Studies indicate that *at least 4 months of twice-daily treatment* with ROGAINE are usually necessary before there is evidence of regrowth.

As you'd expect, if you are older, balding longer, or have a larger area of baldness, you may do less well.

ROGAINE is a treatment, not a cure. So further progress is possible only by using it continuously. Some anecdotal reports indicate that if you stop using ROGAINE, you will probably shed the newly regrown hair within a few months.

Here's what you should do:

Individual results vary widely. So discuss your hair loss with your doctor to understand what you can realistically expect. Only a doctor can prescribe ROGAINE. So see a *dermatologist or another doctor experienced in treating hair loss* today. Why just accept what nature has handed you when you can fight back?

For more information, a list of doctors near you, and a $10 certificate as an incentive to visit your doctor, call this toll-free number: 1-800-685-7586.

Upjohn | DERMATOLOGY DIVISION

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Fight back with Rogaine® TOPICAL SOLUTION minoxidil 2%

Rogaine® minoxidil 2%

The only product ever proven to regrow hair.

What is ROGAINE?
ROGAINE Topical Solution is a prescription medicine for use on the scalp that is used to treat a type of hair loss in men and women known as androgenetic alopecia hair loss of the scalp vertex (top or crown of the head) in men and diffuse hair loss or thinning of the front and top of the scalp in women ROGAINE is a topical form of minoxidil, for use on the scalp

How effective is ROGAINE?
In men: Clinical studies with ROGAINE of over 2,300 men with male pattern baldness involving the top (vertex) of the head were conducted by physicians in 27 US medical centers Based on patient evaluations of regrowth at the end of 4 months, 26% of the patients using ROGAINE had moderate to dense hair regrowth compared with 11% who used a placebo treatment (no active ingredient) No regrowth was reported by 41% of those using ROGAINE and 60% of those using a placebo By the end of 1 year, 48% of those who continued to use ROGAINE rated their hair growth as moderate or better

In women: Clinical studies with ROGAINE were conducted by physicians in 11 US medical centers involving 256 women with hair loss Based on patient evaluations of regrowth after 32 weeks (8 months), 19% of the women using ROGAINE had at least moderate regrowth compared with 7% of those using a placebo No regrowth was reported by 41% of the group using ROGAINE and 60% of the group using placebo

How soon can I expect results from using ROGAINE?
Studies show that the response time to ROGAINE may differ greatly from one person to another Some people using ROGAINE may see results faster than others, others may respond with a slower rate of hair regrowth You should not expect visible regrowth in less than 4 months

How long do I need to use ROGAINE?
ROGAINE is a hair-loss treatment, not a cure If you have new hair growth, you will need to continue using ROGAINE to keep or increase hair regrowth. If you do not begin to show new hair growth with ROGAINE after a reasonable period of time (at least 4 months), your doctor may advise you to discontinue using ROGAINE

What happens if I stop using ROGAINE? Will I keep the new hair?
Probably not People have reported that new hair growth was shed after they stopped using ROGAINE

How much ROGAINE should I use?
You should apply a 1-mL dose of ROGAINE twice a day to your clean dry scalp, once in the morning and once at night before bedtime Wash your hands after use if your fingers are used to apply ROGAINE ROGAINE must remain on the scalp for at least 4 hours to ensure penetration into the scalp Do not wash your hair for at least 4 hours after applying it If you wash your hair before applying ROGAINE, be sure your scalp and hair are dry when you apply it. *Please refer to the Instructions for Use* in the package

What if I miss a dose or forget to use ROGAINE?
Do not try to make up for missed applications of ROGAINE You should restart your twice-daily doses and return to your usual schedule

What are the most common side effects reported in clinical studies with ROGAINE?
Itching and other skin irritations of the treated scalp area were the most common side effects directly linked to ROGAINE in clinical studies About 7 of every 100 people who used ROGAINE (7%) had these complaints

Other side effects, including light-headedness, dizziness, and headaches, were reported both by people using ROGAINE and by those using the placebo solution with no minoxidil You should ask your doctor to discuss side effects of ROGAINE with you

People who are extra sensitive or allergic to minoxidil, propylene glycol, or ethanol should not use ROGAINE

ROGAINE Topical Solution contains alcohol, which could cause burning or irritation of the eyes or sensitive skin areas If ROGAINE accidentally gets into these areas, rinse the area with large amounts of cool tap water Contact your doctor if the irritation does not go away If the spray applicator is used, avoid inhaling the spray

What are some of the side effects people have reported?
ROGAINE was used by 3,857 patients (347 females) in placebo-controlled clinical trials Except for dermatologic events (involving the skin), no individual reaction or reactions grouped by body systems appeared to be more common in the minoxidil-treated patients than in placebo-treated patients

Dermatologic: irritant or allergic contact dermatitis—7 36%, **Respiratory**: bronchitis, upper respiratory infection, sinusitis—7 16%, **Gastrointestinal**: diarrhea, nausea, vomiting—4 33%, **Neurologic**: headache, dizziness, faintness, light-headedness—3 42%, **Musculoskeletal**: fractures, back pain, tendinitis—2 59%, **Cardiovascular**: edema, chest pain, blood pressure increases/decreases, palpitations, pulse rate increases/decreases—1 53%; **Allergic**: nonspecific allergic reactions, hives, allergic rhinitis, facial swelling, and sensitivity—1 27%, **Metabolic-Nutritional**: edema, weight gain—1 24%, **Special Senses**: conjunctivitis, ear infections, vertigo—1 17%, **Genital Tract**: prostatitis, epididymitis, vaginitis, vulvitis, vaginal discharge/itching—0 91%, **Urinary Tract**: urinary tract infections, renal calculi, urethritis—0 93%, **Endocrine**: 0 47%, **Psychiatric**: anxiety, depression, fatigue—0 36%, **Hematologic**: lymphadenopathy, thrombocytopenia—0 31%

ROGAINE use has been monitored for up to 5 years, and there has been no change in incidence or severity of reported adverse reactions Additional adverse events have been reported since marketing ROGAINE and include eczema, hypertrichosis (excessive hair growth), local erythema (redness), pruritus (itching), dry skin/scalp flaking, sexual dysfunction, visual disturbances, including decreased visual acuity (clarity), increase in hair loss, and alopecia (hair loss)

What are the possible side effects that could affect the heart and circulation when using ROGAINE?
Serious side effects have not been linked to ROGAINE in clinical studies However, it is possible that they could occur if more than the recommended dose of ROGAINE was applied, because the active ingredient in ROGAINE is the same as that in minoxidil tablets These effects appear to be dose related, that is, more effects are seen with higher doses

Because very small amounts of minoxidil reach the blood when the recommended dose of ROGAINE is applied to the scalp, you should know about certain effects that may occur when the tablet form of minoxidil is used to treat high blood pressure Minoxidil tablets lower blood pressure by relaxing the arteries, an effect called vasodilation Vasodilation leads to fluid retention and faster heart rate The following effects have occurred in some patients taking minoxidil tablets for high blood pressure

Increased heart rate some patients have reported that their resting heart rate increased by more than 20 beats per minute

Salt and water retention weight gain of more than 5 pounds in a short period of time or swelling of the face, hands, ankles, or stomach area

Problems breathing especially when lying down, a result of a buildup of body fluids or fluid around the heart

Worsening or new attack of angina pectoris brief, sudden chest pain

When you apply ROGAINE to normal skin, very little minoxidil is absorbed You probably will not have the possible effects caused by minoxidil tablets when you use ROGAINE If, however, you experience any of the possible side effects listed above, stop using ROGAINE and consult your doctor Any such effects would be most likely if ROGAINE was used on damaged or inflamed skin or in greater than recommended amounts

In animal studies, minoxidil, in much larger amounts than would be absorbed from topical use (on skin) in people, has caused important heart-structure damage This kind of damage has not been seen in humans given minoxidil tablets for high blood pressure at effective doses

What factors may increase the risk of serious side effects with ROGAINE?
People with a known or suspected heart condition or a tendency for heart failure would be at particular risk if increased heart rate or fluid retention were to occur People with these kinds of heart problems should discuss the possible risks of treatment with their doctor if they choose to use ROGAINE

ROGAINE should be used only on the balding scalp Using ROGAINE on other parts of the body may increase minoxidil absorption, which may increase the chances of having side effects You should not use ROGAINE if your scalp is irritated or sunburned, and you should not use it if you are using other skin treatments on your scalp

Can people with high blood pressure use ROGAINE?
Most people with high blood pressure, including those taking high blood pressure medicine, can use ROGAINE but should be monitored closely by their doctor Patients taking a blood pressure medicine called guanethidine should not use ROGAINE

Should any precautions be followed?
People who use ROGAINE should see their doctor 1 month after starting ROGAINE and at least every 6 months thereafter Stop using ROGAINE if any of the following occur salt and water retention, problems breathing, faster heart rate, or chest pains

Do not use ROGAINE if you are using other drugs applied to the scalp such as corticosteroids, retinoids, petrolatum, or agents that might increase absorption through the skin ROGAINE is for use on the scalp only Each 1 mL of solution contains 20 mg minoxidil, and accidental ingestion could cause unwanted effects

Are there special precautions for women?
Pregnant women and nursing mothers should not use ROGAINE Also, its effects on women during labor and delivery are not known Efficacy in postmenopausal women has not been studied Studies show the use of ROGAINE will not affect menstrual cycle length, amount of flow, or duration of the menstrual period Discontinue using ROGAINE and consult your doctor as soon as possible if your menstrual period does not occur at the expected time

Can ROGAINE be used by children?
No, the safety and effectiveness of ROGAINE has not been tested in people under age 18

Caution: Federal law prohibits dispensing without a prescription You must see a doctor to receive a prescription

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CB-3-S

where that came from. Alaska Airlines Inc., which competes with Morris on several routes, has also done its share to keep Morris on its toes. It has lowered fares on two routes. And last summer, Alaska complained to the Transportation Dept. that Morris Air, though certified as a charter, was behaving as a scheduled airline. Alaska was right: Transportation fined Morris $200,000 and made it recertify as a scheduled airline. That raised some costs; scheduled carriers must meet more stringent guidelines in remaining accountable to regulatory agencies and customers. Morris plays down the flap—half the fine was suspended—but says wryly of Alaska: "They do aggressive things like that."

ON HOLD. Competitors aren't Morris Air's only problem: The airline's own reservation system could hold it back. Most airlines list their fares on computer-reservations systems, which lets travel agents place bookings in seconds. But Morris, like its model, Southwest, wants to save $2.25 per ticket by forgoing listing on such systems. So agents must go through the tedious process of phoning the airline for tickets. "That means two 15-minute waits on the phone to write a $138 ticket that you make $13.80 on," complains Michelle M. Rafati, manager of Melroy Travel in Salt Lake City.

In the long run, Morris is betting that cost advantages of 30% to 40% below Delta's will keep the airline aloft. Flying one type of aircraft, 737s, means saving on parts and maintenance. Morris Air contracts with other airlines for many services, saving overhead. In Oakland, Calif., for instance, American Airlines checks in Morris customers. Also, competitors must pay workers the same across the country. But Morris Air employs nonunion workers, many of them Mormons who are willing to earn less to work in Utah. June Morris' own rural roots—she herded sheep as a girl—and her membership in the Church of Jesus Christ of Latter-day Saints may also help build loyalty with the state's vast Mormon population, though she dismisses that as a factor.

Those advantages have inspired confidence in at least one investor. In December, Weston Presidio Capital of San Francisco, an $80 million private-equity fund, bought a 20% stake for an undisclosed amount. The skies may be littered with the wreckage of low-fare airlines, but Presidio Managing Partner Michael P. Lazarus calls Morris "a very disciplined company." Morris intends to keep it that way. "I hold the reins on some of these young guys around here who want to go a million miles an hour," she says. Disciplined or not, it looks like she's in for a heck of a ride.

By Sandra D. Atchison in Salt Lake City, with Andrea Rothman in New York

SUPER BOWL '93: THE BODIES ARE ALREADY PILED UP

Advertisers block, tackle, and feint to get the prime spots

The opening kickoff is still two weeks away. But Subaru has already sacked GM in the first skirmish of Super Bowl XXVII. It happened last October, when the two carmakers were jockeying to buy commercial time in the football extravaganza, which airs Jan. 31 on NBC.

Subaru of America Inc. snapped up six 15-second spots in the first three quarters of the game to introduce its new subcompact, the Impreza. By getting its $2.5 million order in ahead of General Motors Corp., Subaru left the giant carmaker with slim pickings. NBC could only offer GM time late in the game, which it declined. "They were a little slow on the draw," says Paul Slagle, the media buyer who negotiated Subaru's purchase. A GM spokesman says the company passed on the game because "it didn't fit into our advertising plans."

Call it the Super Bowl shuffle. Each year, marketers scramble to place spots on the big game, even as the teams are still trudging to Monday night games in Green Bay. The competition can be perfunctory: CBS was peddling commercial time, at $800,000 per 30 seconds, up to a few days before last year's game. But NBC already has sold out the 1993 Super Bowl to at least a dozen major advertisers—at $850,000 per 30 seconds.

LOPSIDED. Far and away the top-rated four hours of TV, the Super Bowl has become the last redoubt for mass marketers intent on reaching the whole nation. This year's game is getting an extra lift from new confidence among advertisers and lack of competition from the Olympic Games. Perennial sponsors, such as Anheuser-Busch Cos. and Nike Inc., are back with big commitments (table). And new players, such as Subaru and accounting firm Coopers & Lybrand, will also strut their stuff for an estimated audience of 80 million. NBC could earn well over $40 million from the telecast.

With so much demand—and with so many ad dollars on the line—the battle for prime placement in the game has become fierce. "The question now is, how do you best position your $850,000," says Steve Auerbach, a buyer at DeWitt Media Inc. who placed two Super Bowl spots for Reebok International Ltd.

NBC charges the same price throughout the telecast. So it takes clout or canny negotiating to secure the best slots. Months before the game, Auerbach and his colleagues sift Nielsen ratings data to see how viewership fluctuates through the course of a typical Super Bowl. Then they must persuade clients to commit the dollars and lock in the slots before other marketers get them. Given the history of lopsided Super Bowls, most agree on one point: Getting stuck in the fourth quarter is like being sacked in your own end zone.

Only the biggest players are sure to avoid that fate. Pepsi-Cola, for example, spends at least $5 million on the telecast. This year, it bought four minutes of time. So of course, Pepsi gets what Pepsi wants—in this case, the first commercial of the game, which it may use to introduce its new Crystal Pepsi brand. Pepsi also demanded it be the only soft drink in its time periods.

THE LAST WORD. Faced with such clout, some smaller marketers resort to a bit of rationalization. Seven-Up Co., the other soft-drink maker in the Super Bowl, bought all three of its 30-second spots in the fourth quarter. Russ Klein, Seven-Up's marketing chief, says he wants to make it the "uncola" quarter. If the game is close, Seven-Up will seem prescient. Even if it is a blowout, Klein argues, viewership won't decline that much anyway.

He has a point. The Washington Redskins hammered the Buffalo Bills in last year's Super Bowl. Yet viewership dropped only 4.2 rating points, from a high of 43.5 to a low of 39.3 in the course of the game. On the other hand, most advertisers agree that even if many viewers leave the TV on in the last stages of a rout, they're likely to shift their focus to eating—or carousing. "I'm not sure how much viewers are even seeing you by then," jokes Subaru's Slagle. "They could be seeing two of your ads at once."

Slagle shrewdly avoided that for Subaru. The Japanese carmaker couldn't match the buying power of GM. But thanks to his contacts at NBC Sports, Slagle kept a minute-by-minute tab on the pace of Super Bowl ad sales. He learned GM was interested in buying time, which could have locked up the last available slots in the first half. So Slagle beat the carmaker to the punch on Oct. 27 by reserving 90 seconds. One spot airs in the first quarter, three in the second, and two in the third. Subaru's ad agency, Wieden & Kennedy Inc., hired Slagle precisely because of his network TV contacts.

Not everyone worries about being on too late. Media buyer Paul Schulman got Purina Cat Chow on the NBC series *Homicide: Life on the Street*, which doesn't air until just after the game. Schulman says he pays one-sixth the Super Bowl rate but gets 40% of the audience. Plus, he adds, "it's a gritty, fast-paced show." That can't always be said of the Super Bowl.

By Mark Landler in New York

AND NOW A WORD FROM...

MEDIA PLANS OF KEY SUPER BOWL SPONSORS

Client	Airtime MINUTES	Cost* MILLIONS
PEPSI-COLA	4.0	$6.8
ANHEUSER-BUSCH	4.0	6.8
REEBOK INTERNATIONAL	2.0	3.4
SEVEN-UP	1.5	2.5
NIKE	1.5	2.5
COOPERS & LYBRAND	1.0	1.7

*Estimates, based on rate of $850,000 per 30 seconds

DATA: COMPANY REPORTS, BW

All Over The World This Is A Symbol For Warmth, Family And Shelte

In 1867, a man named Henri Nestlé began to build a food company.

His name, which means "little nest," has since become synonymous with food, family and quality throughout the world.

Today, that symbol can be found on the bac of many well-known products.

Great-tasting Nestlé brands that include Stouffer's, Contadina, Libby's, Taster's Choic Hills Bros, Carnation and more.

AND NESTLÉ.

d thanks to an unparalleled international
ork of Nestlé research and development
ers, you have our assurance the products
ntroduce in the future will be as good as
ones we make today.

It's also why this little bird's nest represents 125 years of Nestlé quality. As well as the very best.

Nestlé

Makes the very best.

PHILANTHROPY

THEY DIDN'T EVEN GIVE AT THE OFFICE

Its support base shrinking, United Way ponders a new battle plan

U

the first time since 1946, contributions

lions. Some locals have

The United Way net-

to preliminary estimates, raised $66 million less in

drop from its 1991 campaign. But that estimate is based just on the 298 locals (out of 2,100) that

so far. Even if that relatively modest decline doesn't deepen, it means a cut in donations to the agencies United Way supports—of up to 30%

nal tally could be much worse. "It must really be down," says Martin Grenzebach, a director of the American Association of Fund-Raising Counsel, a

Several factors made 1992 a year to forget for United Way. First came the scandal surrounding United Way of America President William Aramony, who resigned in February amid charges of nepotism in appointments and misuse of agency funds for lavish living. Continuing recession and a wave of corporate layoffs added to the gloom, and they hit at the cornerstone of United Way donors—the white-collar worker. In

petition from rival nonprofit agencies and charitable drives—often in the workplace itself.

Publicly, many United Way officials' attitude is: "It was just a bad year." But according to Dwight Burlingame, a director at the Indiana University Center on Philanthropy in Indianapolis, "it's important for them to think of this as a watershed." Indeed, United Way's efforts to change belie its bravado. Last November, a new president, former Peace Corps Director Elaine L. Chao, took over the United Way of America, which is undertaking internal reforms (table). As for local chapters, many have tried to distance themselves from national headquarters, withholding their annual dues when the scandal broke and emphasizing their hometown importance to their communities when the fall campaigns began.

But it was to limited avail. There were a few success stories among the chapters—mainly those who had special homegrown help. United Way of King County, Wash., raised [illegible] more than in 1991, thanks largely to a $1 million challenge grant from Microsoft Corp. Chairman William H. Gates III (who sits on the national organization's board). And United Way of Dade County, Fla., had a 7% increase due to the "awareness and compassion" roused by Hurricane Andrew, says Campaign Chairman Anthony M. Burns, CEO of Ryder System Inc. But these seem to be isolated bright spots.

WALLETS SHUT. United Way officials unanimously blame the recession for the decline. Presidents at every suffering chapter—from Rochester, N.Y., to San Diego—link the fall in employee pledges to staff reductions at local corporations. In Cleveland, "$4.7 million was lost just from downsizing of our major companies," says President Jack C. Costello, ticking many of them off: Ameritrust ($1.5 million less), General Electric ($[illegible] less), and [illegible] Bell (down $500,000 apiece).

But many of those in the field—corporate campaign managers or heads of nonprofit agencies—assign a bigger role to the Aramony scandal. At Xerox Corp., workers reacted strongly to the revelations by closing their wallets, so

NEW WAYS AT UNITED WAY

FINANCIAL CONTROLS For the [illegible] managers will be held accountable for their budgets [illegible] presidents. Senior executives' expenses will be [illegible] audits be audited.

GOVERNANCE Officials from local United Way chapters will have a say in the national organization [illegible] 15 new slots on the board and hold the positions on six new [illegible] including budget, ethics, and compensation.

TRAVEL EXPENSES [illegible] and mandated coach travel for all business trips, including the president's.

OVERHEAD [illegible] slashed from 27% to 18%.

DONOR'S CHOICE Local chapters have expanded programs so that individuals can direct pledges—often with a company matching gift—to the charity of their choice, whether or not it's an official United Way agency.

[illegible]

ys Xerox Program Manager Lolita nn. "In 1991, when we were really in a cession, I got apologies written on edge cards from people who said they anted to give but couldn't," she notes. didn't get any apologies this year."

Behind that disillusionment lie chang-g attitudes toward giving, especially in e corporate sector. Take Stanley Avia-on Corp., a small aerospace-parts man-acturer outside Denver, which pulled it of United Way last year. The scandal as just the final straw: Employees had een unhappy with United Way's high-essure techniques, and they liked the ea of "having a direct say in where eir contributions went," says James . Raabe, vice-president for finance. ow, Stanley conducts a workplace cam-ign on behalf of three local charities, hich will change each year.

D BANQUET. United Way faces more id more competition from other char-es, which in the past decade have ained a 10% share of workplace drives. ampaigning in offices with United Way, any of these "alternative funds" had a ery good year in 1992. While United ays in Los Angeles, San Diego, and an Francisco were struggling, Earth are of California, an environmental mpaign, saw a 42% increase in gifts, ising $2 million overall. Greater Cleve-nd Community Shares raised 19% ore, vs. the United Way of Greater leveland's 9% decrease.

United Way is working to contain the mage. "We are going to have a new everence for donors' dollars," vows resident Chao, who is implementing nd publicizing) a variety of unprece-ented cost controls and accountability rocedures. Local chapters are follow-g the national example, trimming their affs and free-spending ways. To kick f the fall campaign, for example, the eattle United Way replaced its tradi-onal lavish banquet with a Day of Car-g, when volunteers set to work at local gencies.

But such soul-searching isn't enough, ays Craig Smith, editor of *Corporate hilanthropy Report*. He says: "United Vay has to do a better job of addressing s clients"—the donors. United Way of ew York City, for example, is now ap-roaching companies with an offer to istom-design programs for them that ddress specific concerns—truancy or rugs—and that can show measurable esults.

Such long-term reforms are crucial. We'll see 1992 as a real turning point, a gnal that United Way should do busi-ess differently," says United Way of Vew York City President Ralph Dick-rson Jr. "If we don't, we can't survive."

By Troy Segal in New York, with Christina Del Valle in Washington and bureau reports

If you're a Jack Daniel's drinker, drop us a line. We'd like to get to know you.

AT JACK DANIEL DISTILLERY, we're working late to answer calls for more whiskey.

Demand for Jack Daniel's has risen of late, especially from new friends around the world. Of course, we can't make our whiskey any faster—the slow way we insist upon is the reason you like it so much. But we are willing to work longer, like distiller Jim Bedford here. So if you've heard rumors of our popularity overseas, don't worry. Our Mr. Bedford may get less sleep...but you'll get your Jack Daniel's.

SMOOTH SIPPIN'
TENNESSEE WHISKEY

Tennessee Whiskey • 40-43% alcohol by volume (80-86 proof) • Distilled and Bottled by Jack Daniel Distillery, Lem Motlow, Proprietor, Route 1, Lynchburg (Pop 361), Tennessee 37352

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Why people who l
aren't going anyw

Over 18 million people use some version of Lotus® 1-2-3® every day. They depend on it. They trust it. They know it. Which is why, if they're moving from DOS to Windows,™ they're moving to 1-2-3 for Windows...for some very good reasons.

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Only 1-2-3 for Windows is able to read and execute every 1-2-3 for DOS file, style and macro. Which means you can preserve your full investment in 1-2-3 for DOS files when you move to 1-2-3 for Windows. And only 1-2-3 for Windows—with its built-in Classic® Menu—lets you use all your familiar 1-2-3 commands.

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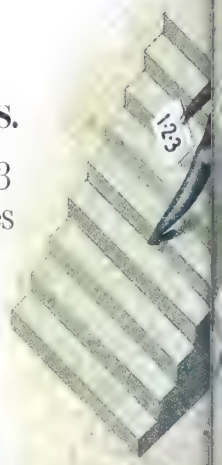
Only 1-2-3's 3D technology gives you easy access to 256 worksheets and lets you build 3D formulas just like you do in 2D. Which ultimately makes consolidating, comparing and analyzing data much simpler. In comparison, Excel's Workbook® is a limited imitation of true 3D. And while working in Group Mode in Borland's® Quattro® Pro for Windows, simply cutting a range of data in one sheet unfortunately means you'll delete the data on every sheet. And what's worse, you can't undo it. All of which means if the analytical power of 3D technology is important to you, 1-2-3 is still the best choice you can make.

They know that 1-2-3 for Windows now includes the *most asked-for* enhancements.



The new release of 1-2-3 for Windows Release 1.1 includes a number of performance enhancements. For example, it's now the fastest Windows spreadsheet for printing on PostScript® printers. And it's also the fastest to launch. We've also added over 25 innovative new features, usability enhancements and GUI development tools. The result? 1-2-3 for Windows is now more powerful and easier to use than ever before.

They know that 1-2-3 for Windows offers *unmatched* database capabilities.

It's true. If you're a spreadsheet user who needs to access external databases, 1-2-3 for Windows remains unmatched—particularly if you need relational capabilities. In fact, *Corporate Computing* (August 1992) recently wrote that *"for the experienced 1-2-3 database user, 1-2-3*

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now spreadsheets here without 1-2-3.

for Windows with DataLens is the front-end tool of choice."

They know we're the *best* company to do business with.

Not only do more people prefer our product, but according to the ComputerWorld Spreadsheet Brand Preference Study, more people prefer our company. And even more recently, the Information Technology Association of America announced that Lotus has been awarded its prestigious Quality Award recognizing outstanding customer service and customer satisfaction.

So if you're staying in DOS or moving to Windows or still trying to decide, remember one thing. That people who know spreadsheets are staying with 1-2-3. Call us today for your free demo disk at **1-800-TRADEUP, ext. 7356*** or visit your Lotus Authorized Reseller.

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'THE HOTTEST HAND' IN DEALMAKING

Tom Lee and his equity partners are raking it in. But public investors aren't faring nearly as well

Thomas H. Lee's grin is as bright as the computer screen on his desk, which displays the stock price of Snapple Beverage Corp., a marketer of bottled iced tea and fruit drinks. The Boston financier took Snapple public in mid-December at $20 a share. The stock is now at 33. But Lee did even better than that. Last March, he and several investment funds he controls did a leveraged buyout of Snapple, paying just $1.76 a share for their stake. In just nine months, that $27.8 million investment has multiplied almost 19 times, to an astonishing $521 million. Lee's personal profit: nearly $100 million. "It's the blockbuster deal of the 1990s, so far," says Texas financier Richard E. Rainwater, a legendary buyout operator in his own right, who participated in a couple of Lee deals a few years ago.

The Snapple deal is the latest in a string of Lee successes. Another longtime Lee-controlled company, Autotote Systems Inc., was one of the top 10 gainers on the NASDAQ market last year. And Lee is preparing two more promising stock offerings. Says Rainwater: "For the moment, Tom Lee has the hottest hand in the business."

SMALL POTATOES. Lee's secret is that he focuses on midsize companies, such as Snapple, which offer huge growth potential—at a time when better-known LBO firms are suffering indigestion from the megacompanies they swallowed in the 1980s. "We think we have the best investment record in the country," says Lee. Many of his institutional investors would agree, having reaped huge returns from their equity stakes in Lee's deals. Among the institutional investors: Harvard, Yale, Eli Lilly, Prudential Insurance, Shell Oil, and Nynex. Success has brought the 48-year-old Harvard BA a net worth above $200 million, plus the trappings of wealth: a private jet, a mansion in Brookline, Mass., and one on Martha's Vineyard.

Unfortunately, the 70,000 individual investors who put almost $900 million into two of his LBO funds—sold with the help of Merrill Lynch & Co.—aren't faring as well from the Lee deals (table). That's because their money mostly went to purchase junk bonds to finance the buyouts, while Lee, and a select group of institutional investors, bought nothing but equity—and lots of it.

The two funds were so-called mezzanine funds. In a typical $100 million LBO of the late 1980s, the equity holders would put up $10 million of the purchase price and would borrow an additional $50 million from banks. The other $40 million was funded by issuing high-yield subordinated debt—junk bonds. A mezzanine fund was a hybrid: It would buy the junk bonds and would also get a small slice of the equity pie. In theory, that gave mezzanine funds a high yield as well as a chance to grab equity gains.

Trouble was, given the thin equity cushions of late 1980s deals, junk bonds tended to get wiped out if a company went sour. But mezzanine funds like Lee's didn't get enough of the tasty equity pie in successful deals to make up for those flops. In other words, these funds got the worst of both worlds: the high risks of equity and the low returns of bonds. As an equity investor, Lee also lost his money in the deals that bombed. But he more than made up for that with huge equity gains on several winners.

Consider Snapple. In the buyout last March, Lee and his institutional investors purchased $22.8 million in stock and then saw their stake soar in the boffo public offering. His public mezzanine investors, however, got only $5 million in

ıapple stock, purchased $24 million in ›nds, and provided another $24 million temporary "bridge-loan" debt. The ›bt got repaid from the proceeds of the ıblic offering. In the end, the individual vestors nearly doubled their $53 mil- ›n investment ($48 million of it debt)—a ›od return, except when compared with ›e's nineteenfold gain.

:AL FRENZY. Despite some big gains, e two funds have had only spotty suc- ss. ML-Lee Acquisition Fund I, found- in 1987, invested in a series of duds. ıe main reason: At the time the fund as launched, deal mania had reached ch a frenzy that many LBOs were erpriced and overleveraged. One such saster was Diet Center Inc., a chain of eight-loss clinics on which Fund I has ken a $54.5 million write-down. Lee so lost money on it.

In public filings, Fund I is shown as ıving no net gain for investors over ›e years, while the three-year-old Fund

is showing just a slight gain. But Lee ıys that's misleading, since the filings › not show unrealized gains on sever- investments. Using internal Lee Co. ·timates, which are generous to Lee, JSINESS WEEK has calculated an esti- ated current value for both funds (ta- e). They show Fund I with a still paltry 5% annual yield and Fund II with a ore respectable 14% annual return. But ›ntrast that with the estimated yields ›e and his institutional investors have earned by taking equity in exactly the same set of deals: 47% on Fund I deals, an eye-popping 470% on Fund II.

There is no evidence that Lee has done anything illegal or unethical. The terms of the partnerships' investments, which are similar to those of other LBO mezzanine funds, were fully disclosed to investors. Still, the partnership interests were sold during a time of frequent press reports of huge profits from LBO deals. Perhaps encouraged by brokers, unsophisticated investors may well have expected much larger returns than they received and may not have appreciated how little they would share in the hottest successes. Says Steven P. Galante, editor of newsletter *Private Equity Analyst:* "The individual investor doesn't have the savvy of the institutions, or the negotiating clout."

LBO funds in which the general public could invest were a rarity. ML-Lee I was the first one. In sales documents, Merrill billed the funds as an "unprecedented" chance for "individual investors . . . to participate in the high-yield debt and equity returns long associated with financing . . . leveraged acquisitions and recapitalizations." Prospectuses pegged the return goal of the individual transactions to Merrill's high-yield debt index, which in the late 1980s hovered between 12.5% and 14.5%, plus an additional 7½ percentage points, for a total yield of over 20%.

To Lee, the disappointing results are regrettable, especially Fund I's, but temporary. Says Lee: "We never suggested this was anything other than a risky investment." Several of the troubled companies in the portfolio have been restructured, he says. Along with Merrill, he predicts that Fund I "will have a positive record when we're all through" and that Fund II could be a big winner, thanks to Snapple-like stock offerings. He and Merrill disagree with complaints from retail investors that they got only the pokey debt end of the deals, while Lee feasted on the equity. Fund investors "bought a different investment" than Lee did, says Merrill Managing Director Kevin K. Albert.

Investor ire has sparked a nasty class action, led by two Fund II investors. Their main complaint revolves around the fund's first and biggest investment: $48.5 million worth of junk bonds in Hills Department Stores Inc., a Canton (Mass.) discount retailer. Ten months later, in February, 1991, Hills filed for Chapter 11. Says plaintiff William Seidel, a retiree from Vermilion, Ohio, who invested $10,000: "Merrill Lynch played [the fund] up as a tremendous investment, almost a sure thing. It's a lot different from what's coming out."

Among other things, the suit charges

LEE'S DEALS: WHO GETS WHAT

LEE AND INSTITUTIONAL PARTNERS HAVE MADE SOME HEFTY GAINS...

ML-LEE FUND I DEALS SINCE 1987		ML-LEE FUND II DEALS SINCE 1989	
T.H. LEE CO. EQUITY INVESTMENT	$58.8 MILLION	T.H. LEE CO. AND INSTITUTIONAL PARTNERS EQUITY INVESTMENT	$96.8 MILLION
CURRENT VALUE	194.7 MILLION	CURRENT VALUE	579.0 MILLION
GAIN	135.9 MILLION	GAIN	482.2 MILLION
AVERAGE ANNUAL RETURN	47.3%	AVERAGE ANNUAL RETURN	470.0%

...AND LEE AND MERRILL LYNCH HAVE REAPED LARGE FEES...

THOMAS H. LEE CO.		MERRILL LYNCH & CO.	
MANAGEMENT FEES	$39.6 MILLION	SALES FEES	$50.3 MILLION
INCENTIVE FEES	24.2 MILLION	ADVISORY FEES	5.1 MILLION
CLOSING AND MONITORING FEES*	20.0 MILLION	MERRILL TOTAL	$55.4 MILLION
LEE TOTAL	$83.8 MILLION		

*BW ESTIMATE

...BUT PUBLIC INVESTORS HAVE FARED A LOT LESS WELL

ML-LEE FUND I		ML-LEE FUND II	
INITIAL INVESTMENT	$492 MILLION	INITIAL INVESTMENT	$400 MILLION
CURRENT VALUE*	350 MILLION	CURRENT VALUE*	498 MILLION
DISTRIBUTIONS	182 MILLION	DISTRIBUTIONS	77 MILLION
TOTAL	$532 MILLION	TOTAL	$575 MILLION
EST. AVERAGE ANNUAL RETURN	2.5%	EST. AVERAGE ANNUAL RETURN	14.0%

*INCLUDES $40 MILLION IN UNREALIZED GAINS NOT REPORTED PUBLICLY

*INCLUDES $150 MILLION IN REALIZED AND UNREALIZED GAINS NOT REPORTED PUBLICLY, INCLUDING $95 MILLION GAIN ON SNAPPLE BEVERAGE

DATA: COMPANY ACCOUNTS, THOMAS H. LEE CO. ESTIMATES, BW ESTIMATES

that Lee had a strong personal interest in shoring up Hills. The company was founded by Lee's grandfather, and Lee had taken it private in a 1985 LBO. Lee personally owned 18% of Hills's stock when Fund II invested. Lee denies any impropriety in the Hills deal: "Hills had a strong underlying operating profit. We were investing for the upside, not as a bailout." He says the U. S. retail climate chilled after the Iraqi invasion of Kuwait in August, 1990. "Nobody could have predicted what happened."

HILLS GOT A BIG CASH INFUSION FROM LEE'S FUNDS

Lee's LBO experience started early, soon after he left a fast-track career at Bank of Boston Corp. in 1974 to buy small, troubled companies and turn them around cheaply. Lacking much money of his own, Lee borrowed to acquire most of the equity for his early deals. And he plowed nearly all of his gains into subsequent buys. Today, he's one of the few LBO operators who put a big portion of their personal wealth on the line. In 1982, he and his partners made a splash with Guilford Industries Inc. Lee took it public, eventually reaping a $30 million profit. It was, he recalls, "the deal that put us on the map."

CAPTIVE SOURCE. That was enough to attract Merrill and its institutional clients. The big securities house raised a $50 million LBO equity fund for Lee to manage. Lee matched it with $15 million of his own money. In 1985, chafing under constraints he felt from his partners, Lee split to set up his own LBO shop. Merrill approached him with the ML-Lee funds idea. They raised $492 million for the first fund and $400 million for ML-Lee II.

This captive source of funds has proved a huge advantage for Lee. While most buyout firms have to raise debt money to complete deals, Lee could often move more quickly than competitors by approaching a seller with the financing in place.

But the arrangement involved a potential conflict of interest. In structuring a deal, for example, Lee, as an equity investor, might skew the terms to suit his interests over those of the Fund I or II investors. While institutional money managers would probably spot the bias, individual investors would likely be oblivious. To deal with the issue, Lee and Merrill worked out safeguards for public investors with the Securities & Exchange Commission. The most important was the addition of three independent general partners who would supervise the funds and approve any out-of-the-ordinary deals. One of them is Vernon R. Alden, former chairman of Boston Co. and also a director of McGraw-Hill Inc., publisher of BUSINESS WEEK.

Such conflicts are hard to sort out, but fee income surely isn't. Lee's has been princely. The fees allow him to run a lavishly furnished office in one of Boston's premier buildings. But most important, the fees flow so freely that there's money left over for Lee and his partners to use as equity in deals. Hence, the LBO-fund investors, in effect, are providing not only the debt for Lee's deals but even some of his equity—free of charge. Pressed on the point, Lee at first denies that any of his equity comes from fees, then concedes it's "10% or 20%." A rival LBO fund head likens this to "a money machine," saying "it points to an enormous misalignment of interest" between Lee and the ML-Lee investors.

> 'Merrill played [the fund] up as a tremendous investment, almost a sure thing. It's a lot different from what's coming out'

The fee structure is handsome. Merrill got about $55 million for marketing the funds. And as the funds' manager, Thomas H. Lee Co.—of which Lee owns about two-thirds—gets an annual management fee of 1% of the total assets, not including a 0.45% administration fee. Although 1% sounds small, with $850 million under management, it adds up. Plus, Lee's firm gets 20% of all profits if the fund surpasses a 10% return in a given year, which Fund I did several times early on. To date, Lee's company has raked in almost $65 million in such fees.

FAMILY AFFAIR. That's not all. Lee's firm gets a closing fee of $200,000 to $1 million or more when it buys a company and annual "monitoring" fees averaging $200,000 for running each company in the portfolio. Multiply that by two dozen deals, and you're talking real money. True, these fees are similar to those of other funds, although fees have fallen lately. Some feel LBO funds are too generous anyway.

Yet give Lee credit. He is a long-term player. Despite troubles at many companies he acquired in the late '80s, Lee didn't cut and run as some LBO operators did. Albert L. Prillaman, CEO of Stanley Furniture Co., based in Stanleytown, Va., says the furniture-industry recession put Stanley into a tailspin soon after Lee's firm acquired it. "But," he says, "they supported us with the banks and with additional investments" to help overhaul operations.

It may have been this predilection to support his companies that led Lee into the Hills Department Stores debacle. Lee's grandfather, Robert W. Schiff, had started a chain of Columbus (Ohio) shoe stores that eventually merged with Hills in the early 1960s. In 1985, when Lee's uncle was chairman of the company, Lee got involved. He and management took the company private in a $646 million LBO, then later took Hills public again.

But by early 1990, Hills needed new investment. It

ad made a big acquisition and faced a eadline for repaying some of the uyout debt. Its stock had sunk from a igh of $10.75 in early 1988 to $4 in late 989. Critics say Lee found it difficult to eparate his emotional ties to Hills from is business sense, a charge Lee strong- denies. In any case, Hills raised about 50 million each from ML-Lee II and Vestinghouse Credit Corp. in the form f junior subordinated debt—near the ottom of the payback pile in case of efault.

Lee says the decision by Westing- ouse to invest on the same terms nows that the ML-Lee fund was getting fair shake. He also points out that the ivestment was approved by the fund's nree independent directors. Says one of nem, Joseph L. Bower, a Harvard busi- ess school professor: "There was com- lete disclosure of everything." The in- estment in Hills, he says, "was very noroughly discussed."

Still, some wonder if Lee was wise to ave the public fund invest in a company e personally controlled. "In this busi- ess, people like Lee face this sort of otential conflict all the time," says ames H. Reinhardt, managing director t pension-fund adviser Pathway Capital Ianagement in Los Angeles. "Most de- de they don't want the headache."

AZZLING GAINS. One group of investors as no complaints: the big institutions nat put money into a $468 million equity und Lee and Merrill raised in late 1989 nd early 1990. They joined Lee in tak- ng sizable equity positions in Snapple— nd reaped immense gains. "The things e has in the new fund are off to a very ood start," says Fred Ruebeck, director f investments administration at Eli Lil- y & Co. Lee's own calculations show nat the $150 million already committed rom the equity fund has more than qua- rupled in value.

Nor does Merrill have any complaints bout the mutually profitable relation- hip with Lee. Again, take the Snapple eal. When Snapple's co-founders decid- d to sell, they hired Merrill to represent nem. After the LBO auction in March, ee emerged with the prize. Merrill's fee n the transaction: $2.7 million. Nine nonths later, when Lee decided to float napple to the public, Merrill was the ead underwriter, garnering an estimat- d $3 million in fees. The firm defends he fees as normal.

Lee thinks the current climate for BOs is very favorable: low interest ates, a resurgent junk market, and lenty of companies for sale. He predicts bumper series of deals. But most of he ML-Lee fund money has already been pent. As before, the ML-Lee investors re likely to get only scraps from the east.

By Mark Maremont in Boston

LOW-DOWN PAYMENTS: THE INDUSTRY AVOIDS USURY LAWS BY CLAIMING IT RENTS, NOT SELLS

NEITHER FISH NOR FOWL— BUT SOME CALL IT FOUL

How the rent-to-own business thrives in a regulatory limbo

Charlene Mathis wanted to buy a 19-inch television set to keep her three children entertained. But when she walked five blocks to a store near the housing project where she lives in Jersey City, N. J., and offered to pay cash, the store wouldn't sell her one. Instead, a friendly salesman said, she could have a TV and a videocassette recorder for just $20 a week. "He just said over and over, 'You can just rent these for a couple of months, then they're yours,'" says the 30-year-old clerical worker, who agreed to the deal. What she didn't realize until many payments later—and what the salesman didn't point out—she says, was that payments would add up to $1,840 for items whose retail price was maybe $500.

The business of providing TVs, stereos, microwaves, washing machines, furniture—even jewelry—for rent with the option to own has grown into a thriving, $3.6 billion industry. Largely because it is very loosely regulated, rent-to-own, as executives call the business, has generated a firestorm of controversy among consumer advocates and is keeping courtrooms and state legislatures humming with activity.

The rent-to-own industry says it provides a valuable service by making a wide range of goods available for short-term rentals, often to low-income consumers who don't have credit and wouldn't have access to such items any other way. According to critics, though, rent-to-own preys on the unsophisticated poor through exorbitant pricing and seeks to evade usury and consumer-protection laws by structuring contracts as short-term leases, which fall outside of most regulation. The transaction, say critics, is more like a credit sale, which is covered under existing laws.

NO-MAN'S-LAND. While many rent-to-own stores are small outfits, larger players are increasingly dominating the market. The largest nationwide company, Rent-A-Center USA, has grown from a chain of about 200 stores in 1987, when Thorn EMI PLC paid $594 million for its stock and took it private, to 1,400 stores today. As part of Thorn EMI, which also has rental stores in Britain, Rent-A-Center USA is one of the largest buyers of durable consumer goods in the world. The company says its annual earnings growth has been in excess of 20% during its 20 years in existence.

One of the few public companies in the rent-to-own industry is also expanding aggressively. Atlanta-based Aaron Rents Inc., which says it is the nation's largest furniture rental company, sees "the RTO business as a very large, grow-

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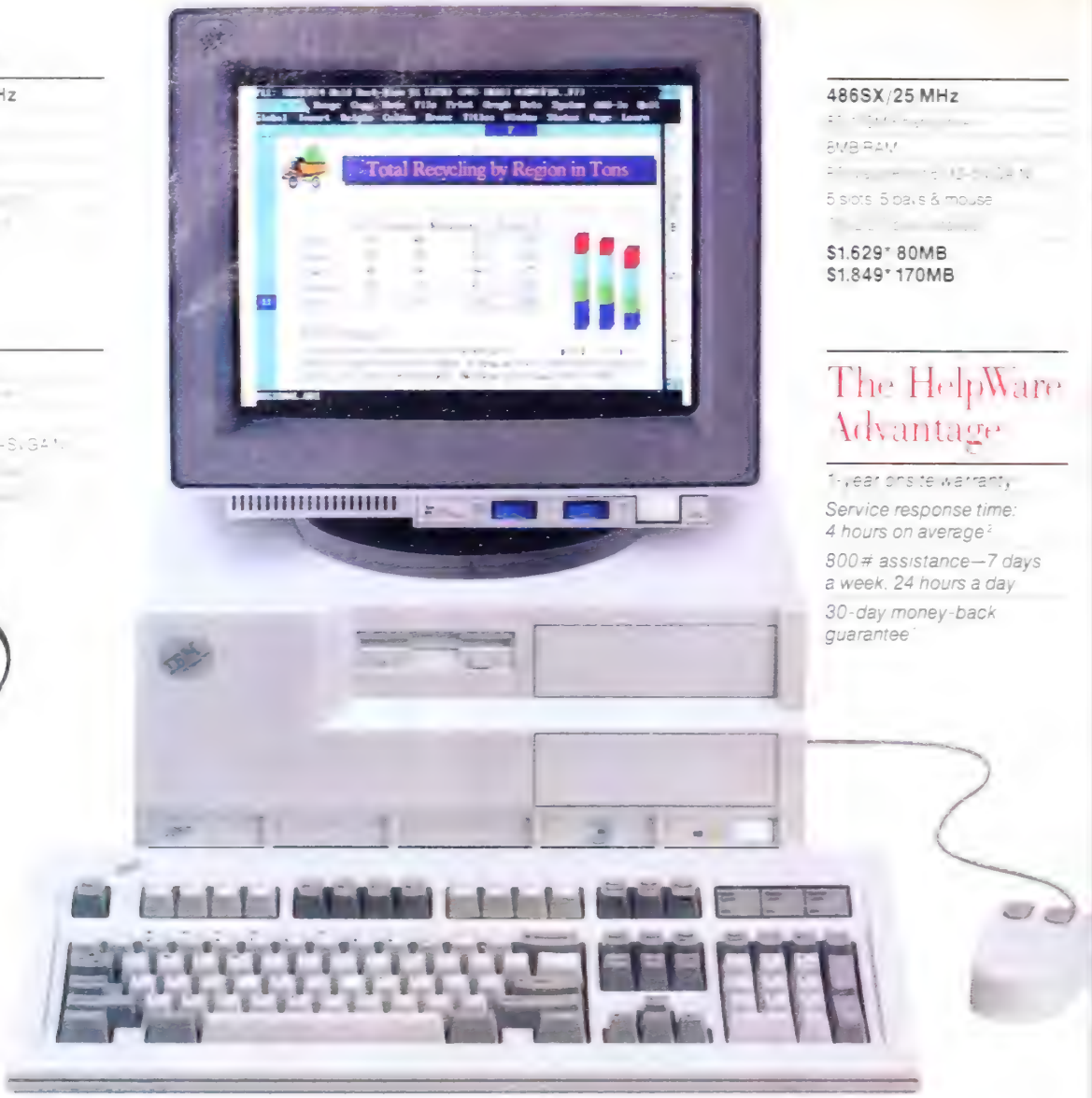

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ing market," says Gilbert L. Danielson, chief financial officer for the company, which had revenues of $144.5 million in 1992. "We feel a big part of the future growth of Aaron Rents will be in that business." After lining up financing agreements with ITT Commercial Finance Corp., it has started franchising.

The rent-to-own industry has long operated in a kind of regulatory no-man's-land. There is no federal legislation governing the industry, and until 1985, there was little legislation on the state level, either. Because of the unique structure of RTO contracts, they've largely avoided being characterized as credit sales, which would require disclosure of an annual percentage rate and trigger other consumer-protection laws.

The industry's reasoning goes like this: If there is no debt created in a transaction and a consumer isn't obligated to pay for the full value of goods, then rent-to-own transactions aren't covered by the federal Truth in Lending Act and state acts governing retail installment sales. As renewable one-week or one-month leases that can be terminated at any time, RTO contracts don't fall under the Consumer Leasing Act, which covers leases that exceed four months.

TAKEN TO THE CLEANERS. Consumer advocates have been trying to remove the industry from regulatory limbo. They argue that while the form of the rent-to-own contract may be a rental, the intent is to make a sale, so it should be treated as a credit sale. "In our view, they're trying to sell and are convincing consumers that they're buying. But the contract is one of the worst purchases you could make, and that's the problem," says Ed Mierzwinski, a consumer advocate with the U. S. Public Interest Research Group in Washington, D. C.

But the industry argues, and many courts have agreed, that since the contracts can be terminated at any time, the laws governing credit sales don't apply. "Our defense is in the statistics," says Ronald Waters, director of government affairs for the Association of Progressive Rental Organizations (APRO), the Austin (Tex.)-based industry group. "Only 25% or less keep the items to full term." Consumer advocates say that figure is greatly understated.

The industry exploits low-income consumers, say its critics. APRO, which represents 3,600 stores, says the client mix is becoming more upscale but that the working poor are still an important segment. Rent-A-Center USA says that its clientele is a mix of middle- and lower-income clients. It says that about 20% of its customers get some form of state or governmental aid.

Consumer groups are most infuriated by pricing that can be double to triple the stated cash price for an item, which is already marked up from the wholesale price. For example, an April, 1992, study by the California Public Interest Research Group found washing machines listed at a cash price of $150 offered at $40 a month for 18 months, or $720. A refrigerator with a cash price of $350 was offered for $16.99 a week for 69 weeks—total price, $1,172.

Add-on fees are common in the industry. An ongoing lawsuit in New Jersey is a case in point. In April, 1988, Iris Green signed a contract with a rent-to-own store near where she lives in public housing in Paterson, N. J. She agreed to pay $64.29 a month for 18 months for a living room set she wanted to own. But not included in that number was $3.86 a month in sales tax, $4 a month for a waiver-of-liability fee, a $25 delivery and installation fee, a $7 fee to have someone come to her home to collect payments, and late-payment fees that were $1 a day. Industry critics say there is much consumer confusion over such fees and that consumers may not be aware of them until the merchandise, along with the contract, is delivered.

Green's story highlights another aspect of the business that generates a lot of controversy: Consumers build no equity in rent-to-own items. If payments are missed, merchandise can be repossessed even though consumers are close to owning them. For example, Green made total payments of $964.35, excluding fees, for the living room set, not far from the $1,157.22 she would have had to pay to own the furniture, which had a listed cash price of $499. But when she was hospitalized and became unable to make the payments, it was repossessed and she lost all her money.

The industry argues that high costs justify its pricing. Dealers say providing repairs for the life of a contract is expensive, as are collection and repossession efforts on items rented weekly or monthly. They also cite borrowing costs that are higher than traditional retailers. "They do have some higher business costs, but it's hard to believe that justifies what we call interest rates and they call 'time-price differentials' that are more than three times the amounts charged by finance companies, which were set up to provide very small loans to risky borrowers," says Margot Saunders, managing attorney for the National Consumer Law Center in Washington, D. C.

The RTO industry has been very effective in fending off restrictive legislation. In the past eight years, 31 states have passed laws regulating the rent-to-own industry. Some have limited fees, but few have done much to restrict pricing. "The industry has clearly won the game," says James P. Nehf, an associate professor teaching commercial and consumer protection law at Indiana University's School of Law in Indianapolis. "Industry forces are better funded and have stronger lobbyists than consumer groups, so they can get their views heard more effectively." Christopher A. Korst, director of legal affairs for Rent-A-Center USA, says the legislation consumer advocates seek (table) would put the industry out of business.

Consumer interests dismiss that claim. And they're far from discouraged about the few significant reforms to date. "We need to escalate our effort," says Ed Mierzwinski. With RTO legislation kicking around on the federal level and 19 states without legislation, one thing is clear: Consumer advocates and RTO lobbyists will be battling for years to come.

By Suzanne Woolley in New York

DR. NADER SOLIMAN: NOT ONLY DID HE LOSE, BUT THE RULING IS RETROACTIVE

AN INTRUDER JUST GOT INTO YOUR HOME OFFICE: THE IRS

The high court sets a tougher standard for that juicy tax deduction

Bill Clinton may not have decided whether to raise taxes. But in an 8-1 decision limiting home office deductions, the Supreme Court on Jan. 12 in effect did part of the job for him. Hundreds of thousands of people will be affected by the ruling, which allows deductions only if a home office is the principal place of business. Some 1.6 million taxpayers claimed home office deductions last year, saving an estimated $8 billion. No one knows precisely how many taxpayers will be affected, but one New York accountant says it could be upward of 50% of those who claimed the deduction.

The new litmus test uses two criteria. The business' most important functions—where services are provided—must take place in the home office. And the amount of work time spent in the home office should be greater than the amount spent outside of it. "That means if you silk-screen T-shirts in your basement and sell them on the street corner, your primary place of business would be the street corner," says William G. Brennan, editor of Ernst & Young's *Financial Planning Reporter.*

Accountants say it doesn't matter whether the at-home business is your only livelihood or a sideline to a full-time job. As long as you do all or most of the work for the home-based enterprise in a separate space designated for that purpose, it will continue to qualify for special tax treatment. Thus, a graphic artist who does regular freelance work at home would still be eligible. So would a phone company employee who sells Amway products in his spare time from a basement office.

But there's a caveat: "The business must be a continual activity, not just a once-a-year thing," says Tom Ochsenschlager, a partner in the Washington (D. C.) office of accounting firm Grant Thornton. "If a guy takes photos on the weekends and sells a few at a county fair, the IRS might say it's just an extension of his hobby and not a business."

Also on shaky ground in taking the deduction are self-employed people, such as computer consultants and lawyers, who spend much of their time meeting with clients and working outside their homes. However, a gray area exists that still allows them to argue for deductibility. Take a management consultant who spends a lot of time doing research at home. But he frequently meets at clients' offices to discuss projects and present reports. "There, you've got an argument that the most important function of your business is the work you do at home," says Paul Laughlin, a partner in individual tax services in Arthur Andersen & Co.'s Chicago office.

The Supreme Court decision was made in the case of Nader Soliman, a self-employed anesthesiologist who used his McClean (Va.) home office to keep records and make phone calls for his work at three local hospitals. Justice Anthony M. Kennedy wrote the majority opinion, arguing that since Soliman took care of patients at the hospitals, that was his primary workplace. And since he only spent 10-15 hours a week in his home office, he could not deduct it, even though he had no other office. In doing so, the court upheld a statute that's long been in the tax code, but has been interpreted in recent years to mean a place where work is done that is essential to your business.

QUICK ACTION. Tax experts say the ruling is retroactive, and they have little doubt that the IRS will get the audit machinery rolling. Last year, the agency made it easier to identify taxpayers who claim home office deductions by introducing a separate form—8829—for itemizing expenses. The IRS can now punch up these forms on the computer in minutes, says Laughlin of Arthur Andersen. He advises people who are disallowed under the new law to file amended returns promptly. That's to stop the interest meter from ticking, not to avoid a penalty. "They should not be subject to penalty because the authority at the time did permit the deduction," Ochsenschlager says.

Those who think they still have a good case to make for their past home-office deductions, should wait. First, the IRS isn't going to audit everyone, so the issue may not come up. And even if it does, then they can argue the merits at that time.

In the meantime, taxpayers will grow even more gun-shy of the home office deduction. Only a fraction of the millions of people entitled to the deduction use it, because they're afraid they'll be audited, says Bernadette Grey, editor of *Home Office Computing.* The Supreme Court has just raised those odds substantially.

By Pam Black and Amy Dunkin in New York, with Catherine Yang in Washington

HOME OFFICE DEDUCTIONS: BIG BUCKS

Taxpayers taking deduction	1.6 million
Average claim	$5,000
TOTAL	**$8 billion**

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BY GENE G. MARCIAL

THE PICKS OF A PRO WHOSE LIST GAINED 18% LAST YEAR

The ballooning deficit and fickle economy may have refueled investor worry about the market. But to money manager F. Van Kasper, the 1990s are looking mighty upbeat, so he's bullish on the economy and the stock market. Despite the Dow industrials' anemic performance last year, second-tier stocks performed fairly well, outscoring the big-cap issues in the Dow and the S&P 500-stock index, Van Kasper points out. "And 1993 will be another winner for secondary stocks," he forecasts.

The chairman and president of Van Kasper & Co., a research-oriented San Francisco investment bank, is optimistic about the new Administration. "We're very encouraged by the many possibilities under a Clinton Administration, such as wider access to capital and a more organized effort at job creation," says Van Kasper. The over-the-counter stocks, he believes, have captured this particular mood, so he expects they will lead the market in the 1990s. "Don't look anymore to the blue chips for leadership—the real market has switched over to NASDAQ."

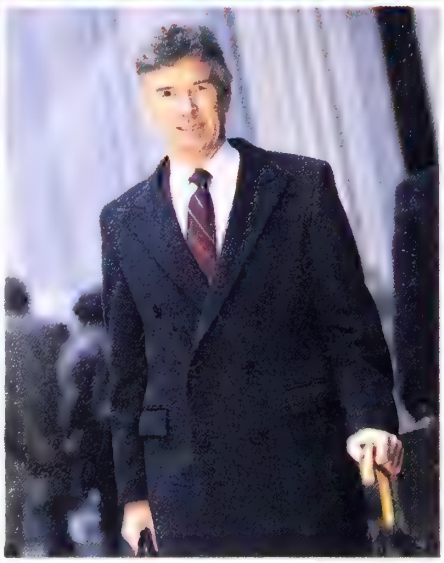
TELESCOPES AND SKATES. Each year, Van Kasper picks his favorite 15 stocks. Last year's picks gained a neat 18% vs. 4% for the Dow industrials. Here's the cream of his 1993 list:

Natural Wonders is the operator of 80 mall-based stores that sell nature- and science-related items, such as telescopes, maps, and minerals. Van Kasper sees profits jumping to 75¢ a share in 1993 from 1992's 42¢, and to $1.10 in 1994. The stock, which has risen to 22 from 14 in mid-December, should hit 30 in a year, he says.

Quidel, whose one-step, one-minute Conceive pregnancy test received marketing clearance from the Food & Drug Administration on Jan. 6, has also developed a fertility test called Safeplan and an ovulation confirmation test called Phasecheck. These products should get approval in Europe and the U. S. in six months, says Van Kasper. He expects earnings of 10¢ in 1993 and 17¢ in 1994, vs. 1992's 5¢. He sees the stock, now at 4¾, topping 9 in 1993.

First Team Sports, the second-largest maker of in-line skates (after Rollerblade Inc.), accounts for 20% of the market. A marketing pact with a European ski-equipment maker and an endorsement contract with hockey star Wayne Gretzky and ice-skating champion Katarina Witt should help the company grow 25% annually over the next few years, Van Kasper believes. He sees the stock, now at 12, shooting up to 20 over the next 12 months.

ILC Technology, whose high-intensity CERMAX lamps are used for illumination in endoscopic surgery, will become a leader in this specialized miniature-lighting business, he says. Now at 12, he expects the stock to double.



VAN KASPER: FORGET THE BLUE CHIPS

A WALL-TO-WALL PURE PLAY

With the economy and housing starting to perk up, the demand for high-priced patterned carpets is also coming to life. Looking for a pure stock play in patterned carpets, one savvy money manager has come up with a small company that doesn't make carpets at all: Tapistron International, maker of a patented computerized carpetmaking machine that blends high tufting speed with design flexibility.

Called CYP (computerized yarn placement), Tapistron's machine produces highly versatile patterned carpets for residential and commercial uses much faster and at less cost than conventional machines, says analyst Martin Magida of Josephthal, Lyon & Ross. In addition to making carpets in almost any design, color, pile, or texture—a flexibility not available in other tufting machines—the CYP loom "can change production configurations in minutes, compared with days for its competitors, and at significant cost advantage," explains Magida. He estimates that one CYP loom can save about $2.8 million annually compared with $800,000 for most machines.

Tapistron shipped four machines, ranging in price from $850,000 to $1.1 million, in 1992. It recently received an order for two from Habitat Industries, a major carpetmaker in Thailand.

The analyst sees the company posting a profit this year of 39¢ a share on sales of $16 million and earnings of 85¢ next year on sales of $28 million.

Tapistron's stock has flown from 3¼ a share in October to 6¼. He expects the stock to rise to 12 this year.

FINDING NICHES FOR DRUGMAKERS

Ever heard of "micro marketing?" It's a new strategy that has caught on among the major pharmaceutical companies, because of expectations that President Clinton will clamp down on the cost of medicine.

Physicians already have started to take steps to prescribe the best and cheapest drugs by forming local purchasing committees that do research and establish buying guidelines. Here is where micro marketing comes in. The idea is that drugmakers need to know which drugs specific groups of physicians are prescribing in order to meet that demand. One result: Drugmakers are recognizing the need to curb prices.

One New York fund manager who is high on micro marketing has been buying into Pharmaceutical Marketing Services, which provides specific information that's useful in responding to this new trend in cost containment. The company's allure lies in its proprietary data base and computer technology that provides drugmakers with information about their customers' buying patterns. That helps focus their marketing strategy to specific targets.

As cost containment leads to new purchasing patterns, the need to monitor these changes becomes urgent, says analyst Susan Hirsch of Shearson Lehman Brothers. She notes that Pharmaceutical Marketing "is already the leading provider of managed-care information." In the red in 1991, the company will earn 80¢ a share in 1993 vs. 46¢ in 1992, estimates research director Barry King at Lanyi Research. He thinks the stock, at 15, is undervalued.

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FORTUNE THE SERVICE 500™

IE 50 LARGEST LIFE INSURANCE COMPANIES

ANK 991	LIFE INSURANCE COMPANY	NET INCOME AS % OF ASSETS
1	GUARDIAN LIFE OF AMERICA	2.7
2	[illegible]	[illegible]
3	[illegible]	[illegible]
4	[illegible]	[illegible]

TELECOMMUNICATIONS

MCI IS COMING THROUGH LOUD AND CLEAR

A marketing coup has signaled a rebound in the life of the company

Three years ago, MCI Communications Corp. was on the run. Long-distance giant American Telephone & Telegraph Co. unleashed an ad blitz showing how MCI's rates weren't much of a bargain, and follow-up calls by AT&T's phone reps won back thousands of MCI customers. MCI's market share slumped to 13% in the second half of 1990, from 14% earlier that year. With revenue growth slowing, the No. 2 long-distance company laid off 1,000 workers and consolidated operations. Wall Street, worried that one of its favorite growth stocks had topped out, dumped MCI shares, which slipped from an all-time high of 48½ in October, 1989, to less than 18 in January, 1991. "We were getting clobbered," recalls Gerald H. Taylor, MCI's president of consumer markets.

But that was before Friends & Family. Launched in March, 1991, what began as a clever discount plan has turned into a marketing coup. The scheme, which offers 20% discounts to groups of MCI customers who phone one another, quickly took off—despite an AT&T advertising counteroffensive questioning MCI's practice of using customers to offer up their friends and relatives as marketing prospects.

This month, MCI signed its 10 millionth Friends & Family customer. Its share of the U.S. market has expanded to 17%—a jump worth $1.5 billion annually—while AT&T's share has contracted from 68% to 66%. In 1992, MCI revenues grew an estimated 11%, twice the industry average, to $10.5 billion. And analysts expect profits to come in at $587 million, up about 12%. Now, MCI's stock trades at around 40 (chart).

The rebound marks the beginning of a third major phase in the life of the company. Founded in 1963 as Microwave Communications Inc., MCI at first was what the late Chairman William G. McGowan liked to call "a law firm with an antenna on top." Its primary thrust was to pursue every legal angle to pry open the Bell System's long-distance monopoly. Once it succeeded, it moved to phase two, becoming a construction powerhouse as it laid a nationwide fiber-optic network.

ROBERTS IS EXPLOITING MCI'S GOOD-GUY IMAGE TO THE HILT

In the 1990s, MCI's strategy is to be the master marketer of long distance—the Pepsi of telecommunications. The marketing battle will be fought in such areas as "800" service, data communications, and international calling, all expected to show double-digit growth for the foreseeable future.

"There is a recognition that technology, while the underpinning of everything we do, can eventually be matched," says Timothy F. Price, president of MCI's business markets division. "So our success or failure will largely be judged on our marketing skills." And they'd better be good: AT&T recently passed McDonald's Corp. as the nation's largest advertiser. AT&T scoffs at Friends & Family. A spokesman calls it "a pricing gimmick disguised as innovation," adding that the phone giant doesn't want to compete solely on price but on service and features as well.

'GUERRILLA WARFARE.' The strategy in all these markets is straightforward: Fight a one-front war. MCI's ads target AT&T and never mention Sprint Corp., the nation's No. 3 long-distance carrier. MCI presents customers with an either-or situation and, internally, pushes employees to focus on a single enemy. MCI also aims its marketing at AT&T's weak points. It knew, for example, that the industry giant couldn't respond easily to Friends & Family, in part because AT&T lacked the sophisticated billing system needed to link accounts of customers from all over the country. "They are very effective at guerrilla warfare,"

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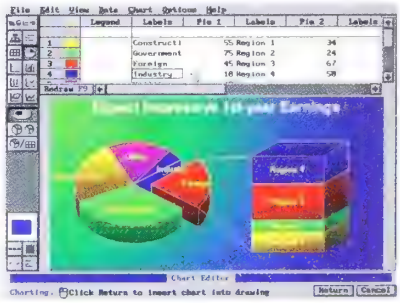

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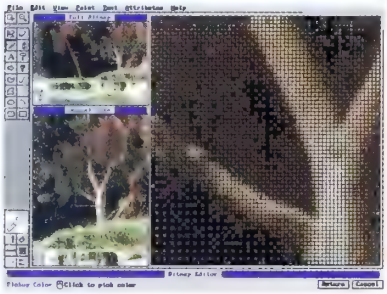

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says Joel Gross, an analyst at Donaldson, Lufkin & Jenrette Securities Corp.

Friends & Family has helped lay the foundation for other marketing forays. Focus-group interviews conducted before the campaign found that long-distance customers cared little what brand they had. The interviews also showed that MCI had a fuzzy image because it no longer was seen as a bargain-basement alternative to AT&T. Friends & Family solved these problems by establishing customer loyalty and creating an image of a "good guy" company, according to studies for MCI by J. S. Childs Inc., a New York-based market researcher.

MCI is exploiting its new image to the hilt. When a couple from Bel Air, Md., invited MCI Chairman Bert C. Roberts Jr. to their wedding last June as a gesture of thanks—Friends & Family let them court inexpensively—Roberts showed up with a camera crew in tow. MCI later used the footage in a commercial.

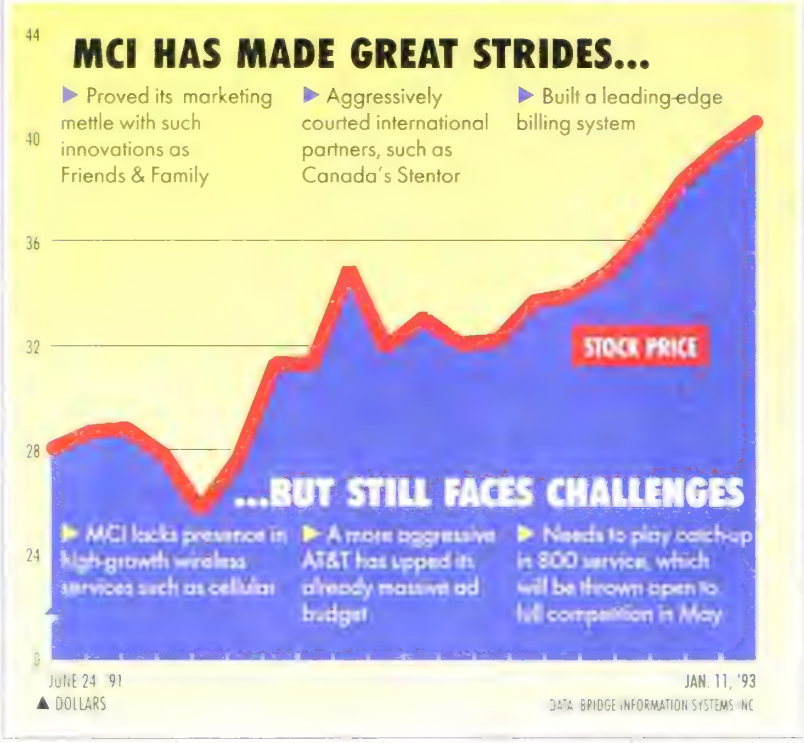
Now, MCI is trying to transfer the warm glow of Friends & Family to the business market. In April, 1992, it launched Friends of the Firm, a program aimed at small businesses. And to further sharpen its marketing attack, MCI created three national divisions last August—consumer, business, and national accounts—which replaced four regional units. The goal is to give MCI's national marketing more focus.

IRREVERENT. To come up with more imaginative marketing plans, MCI executives say it is essential to retain the company's irreverent underdog mentality—despite its $10 billion in revenues and 28,000 employees. That's one of Chairman Roberts' top challenges. A soft-spoken 21-year MCI veteran, Roberts took over when McGowan died last summer. "We need to think small and stay flexible," says Roberts. One tactic: To keep the good ideas flowing, most offices in new company buildings have no doors.

A feisty attitude and marketing savvy won't do it all. This year, for example, the Federal Communications Commission is planning rule changes that could give AT&T a significant cost advantage over MCI. In a move toward cost-based pricing, the agency wants to phase out regulations that require local phone companies to charge all long-distance carriers the same rates for access to local lines. Because AT&T has the lion's share of the $55 billion market, it should gain a windfall as local phone companies are permitted to give it volume discounts for completing long-distance calls. MCI and other smaller carriers are likely to be left paying higher fees.

One way MCI will try to offset this threat is to branch out from long distance, which now accounts for all its revenue. The biggest opportunity is in wireless communications, which could top $100 billion in annual sales by the year 2000. In the early 1980s, MCI held cellular licenses in seven major markets but sold them in 1986 to McCaw Cellular Communications Inc. to help fund expansion. That left MCI without a stake in the rapidly growing wireless arena, a hole made more glaring by AT&T's recent agreement to buy one-third of McCaw, the largest U. S. cellular operator.

MCI is plotting a move into the next generation of cellular, called Personal Communications Services (PCS), which promises cheap, lightweight pocket phones that eventually could start replacing wired phones in homes and offices. MCI has asked the FCC to award three national PCS licenses to a consortium of companies, which would include MCI, but the FCC could well reject the proposal. If that happens, Jonathan C. Crane, president of MCI's national accounts division, says the company might team up with a cable-TV company or a Baby Bell to get into the business.



Short term, MCI is targeting 800 service, a $7 billion market now 80% controlled by AT&T. On May 1, the FCC plans to open the field to full competition. For the first time, customers will be able to switch carriers without changing numbers. In anticipation, MCI has set up an internal contest called Project 800 Track & Attack, which awards prizes to employees who collect the most AT&T 800 numbers for MCI's sales reps to contact.

Roberts also says he has big plans for data transmission, an area in which MCI has been a laggard. Data services now account for only 5% of MCI's revenue, but MCI hopes that figure will grow to 20% by 2000, or about $4.5 billion. The company has rolled out a number of new data-communications products, including frame-relay, a low-cost alternative to a dedicated leased line.

The final frontier for MCI is the international market, where it is busy forging alliances. In late 1990, MCI joined three other companies to form Clear Communications Ltd., an alternative long-distance carrier in New Zealand. Since then, Clear has grabbed 16% of the $1.2 billion market, up from just 8% a year ago. And on Dec. 18, MCI inked a deal to provide software to Stentor, a Canadian phone consortium.

AT&T is not sitting idly by. It sued MCI for patent infringement on Jan. 11, partly because of MCI's plans to share software with Stentor. MCI calls the patents invalid. AT&T is moving north, too, buying 20% of Canada's Unitel Communications.

A setback in the international plan would hurt. "They need to expand internationally more quickly," says Daniel Briere, president of Telechoice Inc., a Montclair (N. J.) consulting firm. Some analysts expect MCI to align itself with British Telecommunications PLC, Britain's largest phone company, which has been looking for a U. S. partner.

"My job and goal is to turn this into a much larger company that can compete on the global stage," says Roberts. By expanding into data, 800 service, international calls, and wireless, Roberts may may reach his goal. Succeeding in all those hotly contested businesses, however, will take all MCI's marketing skills.

By Mark Lewyn in Washington

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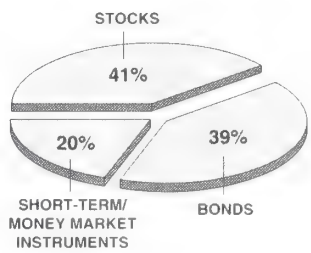

The above chart reflects Asset Manager's approximate investment mix as of September 30, 1992. The fund gradually shifts the percentage of stocks, bonds and short-term/money market instruments as market and economic conditions change.

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SEMICONDUCTORS

MENTOR'S LESSONS IN THE SCHOOL OF HARD KNOCKS

Once the leader in chip-design software, it's fighting to come back

Back in the summer of 1989, the livin' was easy at Mentor Graphics Corp. The eight-year-old Oregon company was the world leader in one of the electronics industry's most vital technologies—software used to simplify the fiendishly difficult task of designing advanced computer chips. Loyal customers included a high-tech who's who, from Apple Computer and Boeing to Samsung. At Mentor's headquarters in Wilsonville near Portland, a masseuse roamed the cubicles, providing neck massages, and work had begun on a new campus with a 24-hour gym and a $1 million child-care center. Meanwhile, Mentor's best engineers were developing what they thought would be a quantum leap in software. Executives expected sales to triple to $1 billion by 1991.

Today, the masseuse is gone—and so are the gigabuck dreams. Mentor is more than two years late with its huge software project and had sales of only about $355 million in 1992—17% below 1989's. Its losses during the past two years total $115 million, and it has surrendered its market lead to Cadence Design Systems Inc., whose 1992 sales rose 11%, to about $435 million. The company is even vulnerable to upstarts such as Synopsys Inc., which are taking the technological lead. Mentor still has a cushion—lots of cash, plenty of loyal customers, and promising products. But its plunge highlights a hazard facing high-tech industries: Leaders of one technology generation often fail to catch the next one. Says Mentor Chief Executive and cofounder Thomas H. Bruggere: "We made all the classic mistakes."

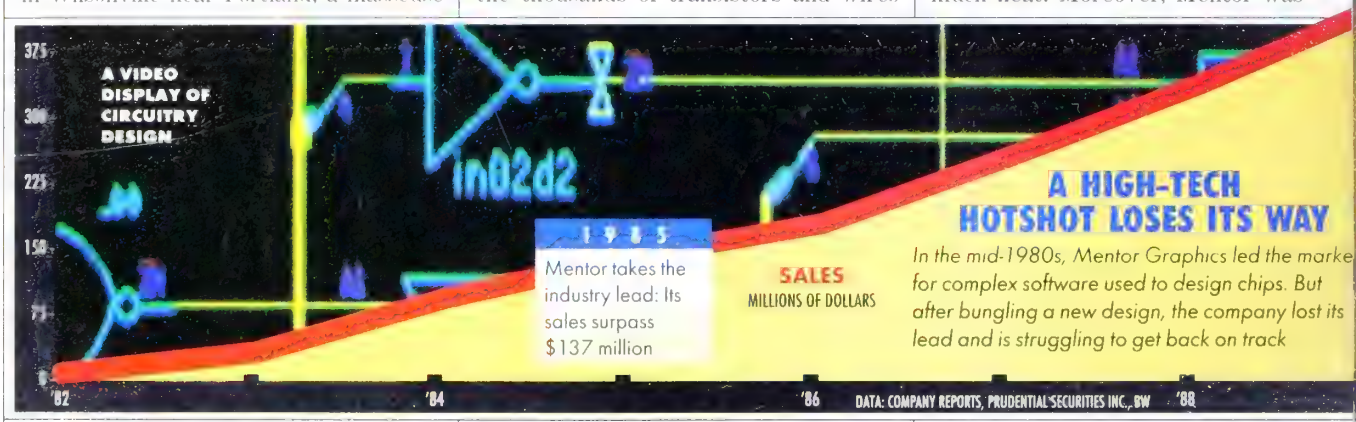
From its founding in 1981, Mentor had been a pioneer in its field. Along with Daisy Systems Corp. and Valid Logic Systems Inc., it developed a new generation of electronic design automation software, the critical tool that lets engineers design ever-more-complex chips and computers. In the 1970s, designers had laboriously laid out each of the thousands of transistors and wires on a chip using a minicomputer terminal with crude graphics. With the new software, engineers could assemble simple circuit diagrams that represent clusters of transistors—and design far more complex chips containing hundreds of thousands of components. For the first time, they could also simulate an entire chip's performance—all on a more powerful desktop workstation. Thanks to superior software, and its decision to use industry-standard workstations instead of proprietary hardware, Mentor took the market lead in 1985.

Then, Mentor tried to reach too far too fast. "We got stars in our eyes," concedes cofounder Kenneth G. Willett. First, it tried to expand into four new businesses, including design systems for software engineering. When those didn't take off quickly, management came up with a more sweeping vision: "Changing the way the world designs." Instead of giving engineers a slightly improved tool with the next version of its core software, Mentor wanted to help them achieve giant advances in productivity. "We tried to build the ultimate dream machine," says former President Gerard H. Langeler, who left last June to become a venture capitalist.

FALTERING. Mentor's dream was a $30,000 to $80,000 bundle of 50 carefully coordinated programs. A so-called software framework would let customers move data quickly among the programs—normally a lengthy or impossible task. And it would let design teams work on a new chip or circuit board at the same time, saving months or years.

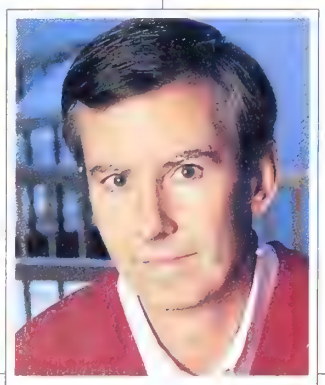
To achieve this vision, engineers kept adding nifty new timesaving features, such as an on-screen temperature gauge to warn of design flaws that would mean the finished chip would generate too much heat. Moreover, Mentor was the first to tackle a major project using a new computer language that incorporates so-called object-oriented programming, which makes it easier to upgrade software. But as its complexity grew, the project fell months behind. In early 1990, Mentor began drafting engineers from other projects and served free lunches on weekends to spur them on. The coordination required to manage all the new bodies just slowed down the product, known as Release 8.0, or "eight-dot-oh" to Mentor gearheads. Customers began calling it "late-dot-oh."

As Mentor faltered, Cadence, a five-year-old rival in San Jose, Calif., moved up. Cadence had design programs that could handle more complex chips and that ran on a wider variety of workstations. By mid-1990, Mentor's delays, coupled with the poor economy, hit home. The



A HIGH-TECH HOTSHOT LOSES ITS WAY

In the mid-1980s, Mentor Graphics led the market for complex software used to design chips. But after bungling a new design, the company lost its lead and is struggling to get back on track



MENTOR CEO BRUGGERE

BOTH IMAGES PHOTOGRAPH BY PETE TOWLE—HART BY RAY VELASCO

ompany's sales declined as some cus-
omers stopped buying older programs
nd waited for 8.0. In November of 1990,
Bruggere, who had left day-to-day oper-
tions largely to Langeler and was cam-
aigning for Oregon Governor Neil
oldschmidt, returned to get 8.0 moving.

Mentor's darkest days were still to
ome. In April, 1991, it reported its first
uarterly loss as a public company. In
ugust, Bruggere shut down three of
ne new businesses, all of which were
osing money, and laid off 435 employees.
Morale was so low that only 20 of Men-
or's 1,300 Portland-area employees at-
ended the company's annual picnic. By
ear's end, Cadence passed Mentor in
oftware revenues. Worse, when 8.0 was
nally shipped in early 1992, it was slow
nd riddled with bugs. "We completely
otched the product-development pro-
ess," says Bruggere, who had been a
oftware-engineering manager at Tek-
ronix Inc. before co-founding Mentor.

Meanwhile, hardware sales trends were also conspiring against Mentor,

hich had always sold its software bun-
led with workstations. Since most cus-
omers now had workstations, computer
ales—once half the company's reve-
ues—dropped off faster than expected.
s its losses mounted, Mentor's stock hit
n all-time low of 5¼ last October.

Mentor's tailspin has fueled specula-
on that it may be acquired—possibly by
lectronic Data Systems Corp., a part-
er on a pending U. S. Navy contract.
Mentor and EDS say that's not likely.
nd Mentor denies speculation that CEO
ruggere's days are numbered. Director
avid R. Hathaway says a chief operat-
g officer will be hired soon to help
ruggere run the company.

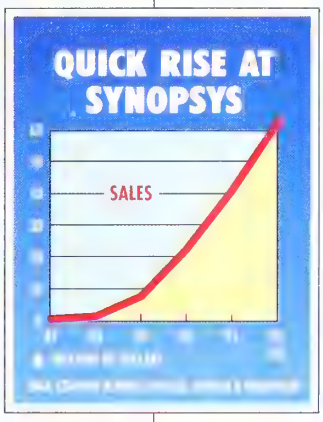
Despite the problems, Bruggere in-
sts Mentor can regain its lead. Some
0% of its customers now use at least
ome of its new software. A speedier,
eaner version of 8.0, slated for release
st December, is due out in this year's
rst quarter. Customers seem im-
ressed: Daimler Benz's chip operation
ecently placed a $15 million order. Men-
or still has $134 million in cash, nearly three times its long-term debt. And it has 12% of the fragmented $1.2 billion industry, trailing only Cadence with 15%.

But in an industry that moves so quickly, Mentor will have a tough time catching up. Analyst John C. Levinson of Goldman, Sachs & Co., for one, expects its sales to sag again this year, to $323 million. Moreover, startups such as Synopsys are trying to leap ahead with next-generation design tools. Bruggere contends that Mentor's broader product line—and strategic vision—will win out. But he doesn't talk anymore about changing the way the world designs chips and circuit boards. Instead of creating the ultimate dream machine, Bruggere and his team are just trying to build products people will buy.

By Robert D. Hof in Wilsonville, Ore.

CHIP-DESIGN SHORTCUTS ARE SYNOPSYS' LONG SUIT

Harvey C. Jones cracks a smile at the word: arrogant. It's a criticism often leveled against his company, Synopsys Inc., and no wonder. The Mountain View (Calif.) upstart proclaims itself the leader in a new generation of electronic-design software that will bury current leaders Cadence Design Systems Inc. and Mentor Graphics Corp. His competitors are just jealous, says Jones, who compares his burden to that of software king Microsoft Corp.



It's easy to forgive him a little hubris. Five years after spinning off from General Electric Co., Synopsys holds a 70% share of its chief market—specialized software that is used to speed chip design. Nearly every major chipmaker now uses it, from Intel Corp. to NEC Corp. So do computer makers such as Apple, Sun Microsystems, and Sony. Synopsys' sales jumped 56%, to $63 million, in the fiscal year ended Sept. 30, and its profits doubled, to $7.1 million. At its Jan. 11 close of 36½, the stock traded at a stratospheric 50 times estimated 1993 earnings.

LARGE COOKIES. The big appeal is Synopsys' so-called logic synthesis software. To design the most advanced new chips, engineers must plot the exact placement of millions of transistors and interconnecting wires that form intricate circuitry. Current software for doing this—such as that from Cadence and Mentor—automates the time-consuming process by letting engineers connect symbols on a workstation screen.

But chips continue to grow 10 times more complex every six years or so—and in many cases, designs must be done in months instead of years. In fact, most current design software may not be sophisticated enough to handle the chips engineers envision for the mid-1990s. Says Synopsys cofounder Aart J. De Geus: "At some point, your oven just isn't large enough for the cookies."

Synopsys is exploiting that opportunity. The software it pioneered frees engineers from having to plot each so-called logic circuit. Instead, they use a special computer language to provide detailed instructions for thousands of design features. The software translates the descriptions into transistors and wires and adjusts their placement on the chip to make it as fast and small as possible.

RELENTLESS. This can be a big advantage. Using synthesis, NCR Corp. cut its custom-chip design time by 30%. Even rivals, who are trying to catch up by perfecting similar technology, concede that Synopsys' program does the job faster and more accurately than theirs.

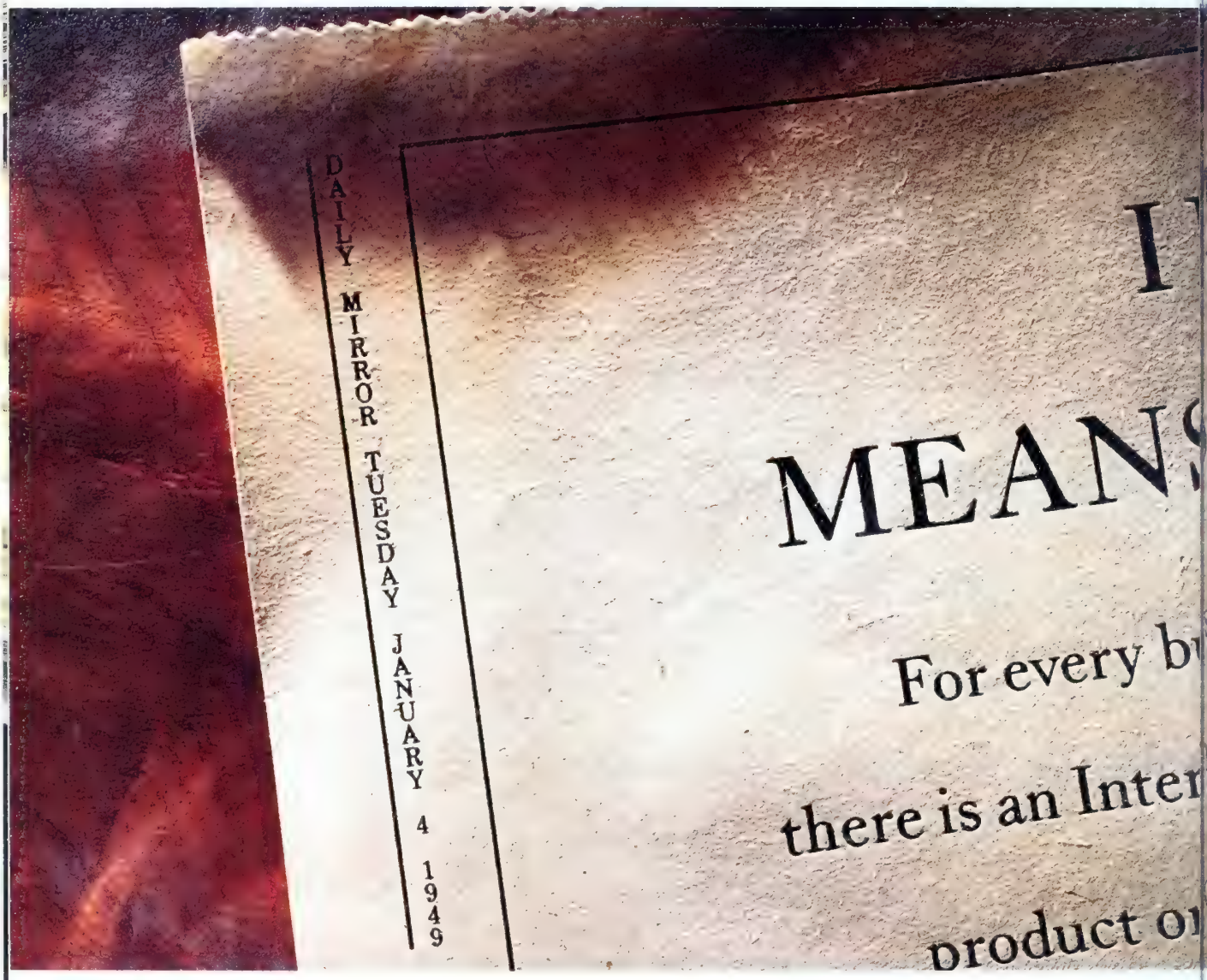
The company also markets programs that simulate chip performance and automatically modify designs for easy testing of the chips. And last month, Synopsys began selling libraries of synthesized basic circuit designs that can be used as building blocks for designing more advanced chips.

Still, Silicon Valley's relentless cycle has already spawned startups that aspire to overtake Synopsys. For instance, Redwood Design Automation Inc. in San Jose, Calif., is working on leading-edge software that would automate the design of entire electronic systems—say a TV remote control or even a computer. So as he rides his technology wave, Jones will have to worry about being swamped by the next one.

By Robert D. Hof in Mountain View, Calif.

CHART BY FOIC HOFFMAN JR., EVA

Our motto.



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EDITED BY PETER COY

A STRIP ACT THAT THE EPA IS SURE TO CHEER

When it comes to cutting toxic emissions, the 1990 Clean Air Act is proving to be the mother of invention. Take removing paint from aircraft. Stripping just one Boeing 727 produces 70,000 gallons of polluted water, 175 pounds of hazardous waste, and 10,000 pounds of toxic air emissions. And aircraft typically need a paint job every four years of their 20- to 30-year lifespans.

Now, McDonnell Douglas Corp. is testing an automated process that uses bursts of heat from a high-intensity lamp to remove paint. Particles of dry ice blast off soot, then a vacuum sucks up the residue. With this Flashjet process, waste from a 727 totals five pounds, the work takes 14 hours instead of 48, and the job costs half as much as before. That's partly because $20,000 in hazardous-waste-disposal costs is avoided. The company intends to market the system by yearend and adapt it later for other tasks such as stripping bridges.

JOLTS AND VOLTS FROM THE RED AND DEAD SEAS

Is the Holy Land about to witness a new Jacob's ladder? Israel's Technion Institute of Technology is seeking investors to help build an immense tower that would produce electricity and fresh water. Starnet Structures Inc. in West Babylon, N. Y., which is helping design it, says the tapered structure would be perhaps 1,000 feet wide at the base and 3,000 feet tall—twice the height of Chicago's Sears Tower. Salt water would be pumped to the top and then rain down inside. As the water evaporated, the surrounding hot air would cool and flow down, driving electricity-producing turbines. The water would be desalinated as it passed through a membrane.

The plan was secret until Foreign Minister Shimon Peres let it slip late last year. Dan Zaslavsky, the Technion professor who heads the project, says the technology could produce electricity more cheaply than nuclear or coal-fired power plants—plus deliver fresh water. Zaslavsky envisions a string of towers, ranging in output from 30 megawatts to 500 megawatts, alongside a proposed $2 billion canal that would stretch from the Dead Sea to the Red Sea.

WHILE THE WEST SLASHES RESEARCHERS, JAPAN MERELY TRIMS

European and North American companies are taking a bigger whack out of their research and development staffs this year than Japanese companies are, according to a new study by PA Consulting Group Inc. and Massachusetts Institute of Technology's Management of Technology & Innovation Group. Some 32% of surveyed companies in North America and 54% of those in Europe plan staff cuts. In Japan, only 4% of respondents expect to trim their payrolls. The Japanese will instead shrink R&D budgets mainly by slashing travel, entertainment, equipment purchases, and consultant fees.

The PA-MIT study also concludes that the Europeans and North Americans are focusing more on short-term R&D results, while the Japanese focus increasingly on long-term research. It says Japanese machinery and electronics industries rank Nos. 1 and 2 in overall R&D performance, and five Japanese industries rank among the world's top 10. North America has four industries in the top 10, but one of them—aerospace—may be facing the biggest cuts of all. The survey covers 90-odd respondents out of the 244 companies that account for more than 80% of the world's R&D.

ONE STEP CLOSER TO THE REMOTE-CONTROLLED HOUSE

Finding a cheap way to communicate with appliances has been one of the biggest hurdles for proponents of "smart" houses, in which everything from the thermostat to the dishwasher can be remotely controlled. Using telephone lines is expensive. Data and control signals can travel over electrical lines, but it's difficult to get them through transformers. Unless that hurdle is overcome, utilities can't use their wires to pick up billing information or tell home appliances when to turn themselves on or off for the cheapest rates.

ABB Power Transmission & Distribution Co. in Raleigh, N. C., pushes data and control signals through transformers. But most other companies skirt the transformers. Intellon Corp. in Ocala, Fla., equips a meter with a modem chip. When the meter sends usage data up the wire to the utility, the signals are intercepted before they reach the transformer and go the rest of the way by cellular radio. The $20 chip is available on a $1,000 meter that General Electric Co. sells to big businesses. GE believes the chip's price will fall to $1 in the next five to seven years, making it practical for home use.

'TAKE TWO CHERRY TOMATOES AND CALL ME IN THE MORNING'

Worried about high blood pressure? Nibble a few cherry tomatoes. Hepatitis B? Nothing some lettuce can't prevent. In another decade, such prescriptions could be picked up at your pharmacy, thanks to biotech breakthroughs in Japan and America. At cosmetics giant Kanebo Ltd. in Osaka, scientists recently combined a common agricultural virus with an amino-acid derivative that reduces high blood pressure and applied it to the leaves of a cherry tomato plant. The plant became "infected" and began producing the antihypertension drug in tomatoes.

In a similar experiment, researchers at AgriStar Inc. in Conroe, Tex., and Texas A&M University's Institute of Biosciences & Technology in Houston put a hepatitis antigen into a soil virus. Lettuce and tomato plants infected with the virus produced small quantities of the antigen, which stimulates production of antibodies against hepatitis. Both the Japanese and Texas researchers believe their techniques can be refined to create safe and reliable mini-factories in garden vegetables.

THE CHALLENGE OF CORPORATE LEADERSHIP IN A CHANGING EUROPE

by Barbara H. Peters and James Peters

From every side, the pressure for change builds. In a Europe that has experienced dizzying shifts in recent years, many leaders see risk and confusion in change. But not **Etienne Davignon**, chairman of the board of directors, Societé Générale de Belgique, and former vice president of the European Community. Says Davignon, "Confusion is not new to Europe. When you examine our history, you see that Europe has always been in some state of disarray." To ward off the calamities that disarray can breed, Davignon calls for leadership of a high order: European leaders who can demonstrate great purpose, decisiveness, and flexibility in a fast-moving global environment. Davignon articulated these leadership qualities, as well as his hopes for European integration, at The 1992 *Business Week* Europe Roundtable of Chief Executives held recently in Paris. This third annual invitational forum was created by *Business Week* together with INSEAD, The European Institute of Business Administration. It was attended by over 100 chief executives of Europe's largest and most respected companies.

For two days, the CEOs explored the leadership challenges they face in their organizations and industries—challenges not unlike those looming over the *political* leaders of a changing Europe.

Implementing Fundamental Change

While many of Europe's political and economic models are being questioned or overturned, corporations across Europe are being driven to launch fundamental change.

According to **James N. Kelly**, managing director—Europe and Asia, Gemini Consulting, four key drivers of corporate transformation have emerged: the demand for reduced cycle time; the rapid development of information technology; the need for greater scale in many industries, which forces mergers worldwide; and the growing power of people. Says Kelly, "The human factor is surely the most critical driver of corporate transformation. How we leverage the ingenuity of people will profoundly affect the direction and success of our companies."

Kelly characterizes corporate transformation as a "complete inversion of the old hierarchical paradigm." To get rid of that obsolete model, "you first need to think about your markets and the empowered people in your markets." Then, companies need to do everything possible to enable their people to serve these markets better. "Most important, chief executives must redefine their roles and begin to view themselves as *facilitators* of fundamental change processes."

To transform successfully, "companies must *restructure, revitalize,* and *reframe,* and they must do all this simultaneously," Kelly advises. Only then will companies optimize performance, create new opportunities, and claim additional markets. "Getting back to basics just isn't enough. Markets are changing too fast for such a modest approach. Instead, an organization must engage hundreds of people in the holistic design of a transformation and, then, involve thousands in its implementation."

That is exactly what happened at SmithKline Beecham, where a global merger triggered the firm's transformation. Chairman of the board **Henry**

ANDREAS BARTH, SENIOR VICE-PRESIDENT—EUROPE, COMPAQ COMPUTER CORPORATION

"SPEED WAS KEY TO COMPAQ'S RENEWAL. WE REDIRECTED THE TOTAL ORGANIZATION TO DEVELOP INNOVATIVE PRODUCTS AND TO DISCOVER NEW MARKET OPPORTUNITIES—AND TO DO IT FAST."

PAOLI L. GUIDI, PRESIDENT, SPRINT INTERNATIONAL

"IN A WORLD WHERE COVETING YOUR NEIGHBOR'S MARKET IS NOT ONLY SOCIALLY ACCEPTABLE BUT ALSO STRATEGICALLY IMPERATIVE, YOU MUST LISTEN VERY CAREFULLY TO YOUR CUSTOMERS."

Wendt says, "We launched over 300 task teams—tapping thousands of people from the two originating companies—to identify best practices and to develop plans for raising our performance to the highest world standard."

Wendt notes that on the very day of the merger, SmithKline Beecham announced its corporate purpose: to build a new and better global health care company. "And the operative word here is *build*, rather than *cut* or *improve*. Narrow goals won't lead to fundamental change. Only a high purpose, implemented in an environment where it is safe to challenge every aspect of the business, will lead to transformation."

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THE RIGHT DIRECTION: FAST AND FLEXIBLE

Andreas Barth, senior vice president—Europe, Compaq Computer Corporation, agrees with Gemini's Kelly that chief executives must be facilitators of change. Says Barth, "They must facilitate change and, equally important, they must do it fast."

Speed was crucial to Compaq's "new era," which dawned amid considerable industry shifting. Barth recalls that after two quarters of declining earnings, the company had realized it was off track. "So, we moved fast to redefine our objectives and strategy." Management decided at once that customer satisfaction should be Compaq's leading business goal. "Next, we quickly redirected the total organization to discover new market opportunities, to design and produce innovative products, and to create new manufacturing capabilities."

In just nine months, Compaq completely turned itself around. The company ended up introducing the biggest lineup of new products in its history—and at its most competitive prices ever. These stretches were supported by a broadened distribution system and an aggressive communications campaign—all directed at satisfying customers. "In Europe, despite the sluggish economy and a decline in the growth of the PC market, we increased our revenues by 40%, doubled the volume shipped, and increased market share," reports Barth.

Ernst Stöckl, chairman and CEO of AEG Aktiengesellschaft ranks flexibility high—along with speed—when it comes to rejuvenating a firm's competitiveness. "By sticking rigidly to German production sites for one unit of our business, we suffered huge losses in the past," says Stöckl. Now, at sites worldwide, AEG promotes "the agile use of decentralized production, research and development, and distribution processes."

The Compaq and AEG experiences clearly merit admiration, says **L. Lindsey Halstead,** chairman of the board, Ford of Europe Inc. But he believes such results should be viewed as milestones on a continuous journey of transformation, not as corporate end-goals. "Ford designed and implemented many change processes in response to a host of competitive challenges, and our results are striking. For example, we are producing 30% more vehicles with 33% fewer people. That's a 90% productivity increase in 10 years. Still, we have to continue accelerating the rate of improvement in our manufacturing efficiency. Though 90% is impressive, Ford must leap to triple-digit gains in the next decade."

As these cases suggest, blending flexibility and speed with strategy can significantly energize corporate renewal. **W. Chan Kim**, professor of strategy and international management at INSEAD, would add fairness and trust to that mix. In fact, to create organizational flexibility, Kim says, "Corporate leaders have to champion fair play. Without a climate of trust, the business platform will inevitably collapse."

Yves Doz, professor of international management at INSEAD points out the *personal* challenge faced by CEOs who must lead their organizations from old ways to new. "There is a need to lead and let go at the same time, a need to manage in multiple time frames with both a long term perspective and a 'real time' attention to strategy, and a need for a rich external orientation and an active strategic debate with the top managemnt team. These are challenges of a personal, even intimate character."

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ENTERPRISE IN THE NEW ORDER

Bold *internal* change preoccupies most European companies, but executives haven't lost sight of recent external events that have jolted—and continue to influence—the business community. With the end of the Cold War, the recasting of Central and Eastern Europe, the dismantling of the Soviet Union, and the movement toward unification Europe has become a vast work in progress.

/e have left a world behind," says **Jonathan ory**, professor of political science at SEAD, "and it will take 10 to 15 years to ge political, economic, and industrial struc- es to supplant those of the pre-1989 world."

Thus, as Europe moves from the old er to a new one that remains vaguely ined, Story predicts that there will be even nger links between politics and the econo- "For the first time in history, we are doing iness in a truly global marketplace." And main point for Europeans to keep in nd: "Every country in the world—and ry smart industry and business—is now keying for position in the integrating ropean market."

That is readily apparent in the telecom- nications industry, according to **Paolo L. idi,** president of Sprint International. He orts that telecommunications firms in both eloped and developing nations are "slowly grating toward a more competitive position nd seeking new markets everywhere." To ive in this new environment, Sprint pio- red telecommunications strategy by staking future on one constituency—*customers*. int defines customers broadly, to include ple who use the company's services—or ght—as well as employees and other keholders.

Sprint has already positioned itself to tap opportunities forced by the new consumer nands. "We reengineered the firm to create most responsive organization possible, osing talented people and installing anced technology. Our organization is entralized, and decision-making occurs se to the customer. On the other hand, nufacturing processes are centralized so that can benefit from economies of scale." In a rld where "coveting your neighbor's mar- is not only socially acceptable but also a tegic imperative," Guidi urges companies sharpen their competitive advantage by lis- ing carefully to their customers.

Sumantra Ghoshal, professor of busi- s policy at INSEAD, believes that a very ferent management model will replace the isionalized organization in the years to ne. This new model looks at the business longer in terms of divisions and hierarchy, in terms of three core processes. The *repreneurial process* drives the creation of new sinesses, the *integration process* links and erages the organization's resources and capabilities and builds a new company, while the *renewal process* continuously revitalizes the company by challenging existing beliefs and practices. "The management of these three processes demand a fundamental change from the multidivisional structure and its traditional managerial roles. Front-line managers, from being simple operational implementers, will need to become aggressive entrepreneurs. Senior managers will intervene as their coaches rather than their administrative controllers. The most traumatic transformation is that required from top management: it will need to exercise institutional leadership, while simultaneously creating the infrastructure and context for others to assume their new roles as entrepreneurs and coaches."

The CEO as Steward and Statesman

Beyond the competitive demands European chief executives must shoulder are the growing responsibilities these leaders assume for the well-being of society and the environment. Public attention to corporate ethics, corporate openness, corporate governance, and corporate environmental policy is a fact-of-business-life that isn't going away soon. Says **Séan Lance,** managing director of Glaxo Pharmaceutical UK Ltd., "Business leaders have to move beyond merely negotiating with governments. To start with, we must meet with stakeholder and consumer representatives to listen and respond to their concerns. Too often, we view such constituencies only as adversaries. But they're not. They're our customers—or our future customers."

"To successfully carry out this corporate citizenship, the willing cooperation of the employees is critical," says INSEAD Professor Chan Kim. From experience with the transformation process at Philips, Kim argues that "to mobilize employees, the leader's key role is to generate both commitment and trust, the major drivers of which I have found to be justice and openness in the decision-making process."

Guy de Selliers, senior banker of the European Bank for Reconstruction and Development, shares Lance's view of corporate citizenship. Indeed, he believes the business community has a decisive role to play in ensuring stability throughout Europe. "As

James N. Kelly, Managing Director—Europe and Asia, Gemini Consulting

"The most crucial driver of corporate transformation is the human factor. How we leverage the ingenuity of people profoundly affects the direction and success of our companies."

Margaret Thatcher, Former Prime Minister, United Kingdom

"The European Community—12 nations with 11 languages, 11 histories, and 11 different ways of life—shouldn't be dissolved into a United States of Europe."

corporate statesmen, you can help galvanize support for Eastern European renewal. For the fledgling democracies there, the transition is tough. The euphoria of 1989 is being displaced by apprehension and pessimism, even conflict. These democracies—and their free markets—may not endure without your leadership."

Advocating capital investment in the region, de Selliers reminds business leaders that Eastern Europe represents a consumer market of over 350 million people. A pent-up production capacity and a long-frustrated demand for goods and services suggest real business opportunities. Equally important, the region boasts a highly skilled labor force, which works hard and at a lower cost. "These conditions are potentially powerful drivers of growth—the growth that is essential for economic and political stability."

Seizing the Opportunities

Opportunities offer potential rewards, but not without risk. London Business School professor of strategy and management **Gary Hamel** says the test for leaders is to win the rewards while circumventing the danger. Hamel advises chief executives to exert *intellectual* leadership to reap success from double edged opportunities. "Understand the likely patterns of evolution in your industry," he urges. "Then your company's core competencies to develop fundamentally new businesses. In creating this new competitive space, you preeempt your competitors and become the strategic architect of your industry."

Hamel's model of a corporate pacesetter—akin to Etienne Davignon's ideal political leader—aspires to the best. Given the unsettled and unprecedented circumstances that lie ahead in global business, it is likely that only such leaders will prevail.

Barbara H. Peters and James Peters are New York-based business writers.

Leaders on The Future of Europe

Many of Europe's most admired leaders participated in the 1992 *Business Week* Europe Roundtable. They addressed the great sweep of recent European history, focusing on the complex issue of unification. Here are some highlights:

Margaret Thatcher, Prime Minister, United Kingdom, 1979-90
"With the Treaty of Maastricht, the whole character of Europe is being changed: from an economic community with a common market to a political union with a European citizenship, a single currency, a single monetary policy, and even common defense and foreign policies. That is a vastly different community than envisioned in the Treaty of Rome. Most people don't want this Maastricht kind of Europe. Indeed, within the democracies, I don't know a period when politicians have been so out of touch with their constituencies."

Etienne Davignon, Vice President, European Community, 1977-84
"Considering the potential dangers Europe faces—global competitiveness and the current political and social malaise are just two examples—we should not support a loose-linked European relationship. That course ensures the abandonment of integration and the return to a balance-of-power framework. We could end up revisiting all the mistakes which have in the past led Europe to disaster."

Hans-Dietrich Genscher, Foreign Minister and Vice Chancellor, Germany, 1990-92
The institutions and structures we enjoy in Europe today made it possible for the greatest changes that have occurred in this century to take place peacefully. Consolidating the strengths of these institutions and structures will make it possible to shape the results of the unification process in such a way that dangers can be avoided and opportunities exploited. That will require imagination, foresight, and boldness. Above all, it will require solidarity between Europe and the North American democracies. Together, we bear responsibility for a new culture of coexistence, for social justice, and for peace.

Commentary/by Aaron Bernstein

MAKING TEAMWORK WORK—AND APPEASING UNCLE SAM

To hear many employers talk, you would think the sky had just fallen. They argue that a mid-December ruling by the National Labor Relations Board (NLRB) has dealt a potentially crippling blow to employee teams, which companies have set up by the thousands in recent years. The reason: to boost productivity and quality and restore U. S. competitiveness (page 12). The board's decision already has been appealed, and management lawyers are advising companies to prepare for years of litigation. But there's a more constructive response: Employers should take some cues from the NLRB and give employees more say in running teams.

The NLRB case involved Electromation Inc., an Elkhart (Ind.) maker of electrical parts. The company set up five committees of up to six employees and one or two managers to deal with issues such as pay scales for skilled workers. Then the Teamsters, which was trying to organize Electromation, claimed that the arrangement violated the National Labor Relations Act of 1935. Among other things, that law bans sham unions—groups that perform some functions of labor unions but are controlled by management.

TAINTED.' The NLRB decided that Electromation did breach the law. The company's teams elicited other workers' views and dealt with traditional bargaining issues such as wages and working conditions, so the board labeled them "labor organizations" as defined by the act. It also found that the teams were "dominated" by management, which formed them, set their goals, and decided how they would operate.

Several NLRB members argue that the Electromation ruling doesn't outlaw work teams per se. But management groups say that thousands of similar teams exist. "The Electromation decision says that any employee-involvement program may be tainted," says Arnold E. Perl, a Memphis lawyer who wrote a brief in the case for the U. S. Chamber of Commerce.

This needn't be, however. True, teams that act in a representative fashion on any condition of employment—improving safety, for instance—now are suspect. But all employee-involvement systems can be made legal. Management still has the right to suggest that they be formed, help set them up, and even finance them. The key is that teams must not be dominated by management. The NLRB decision doesn't say what that means. But board member Dennis M. Devaney agrees that secret-ballot elections of members would probably be one test.

There could be some others. Teams might have wide latitude in deciding what issues to deal with and have the right to meet apart from management. Independent teams also couldn't be dismantled by executive whim—though the law doesn't require a company to follow up on employee proposals. "Employers must decide if they really want employees involved, or if they want to keep all the power," says Lewis L. Maltby, an expert on workplace rights at the American Civil Liberties Union.

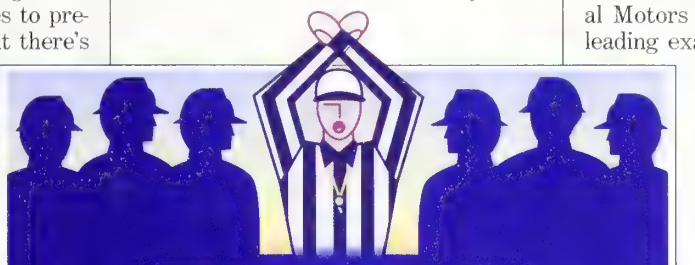
Some proponents of team systems, such as former Labor Secretary Ray Marshall, point to Europe as a model. In Germany, workers elect representatives to a plant-level "works council" that management must consult on most decisions affecting employees, from work organization to health and safety policies. The councils aren't unions and can't call strikes.

BACKDOOR FEARS. In the U. S., General Motors Corp.'s Saturn Corp. is the leading example of independent teams. There, groups of 5 to 15 workers perform managerial tasks such as hiring. They also elect representatives to higher-level teams that make joint decisions with management on virtually every aspect of the business, from car design to marketing to sticker price. Saturn is unionized, but a similar approach could obviously work at unorganized companies.

Most U. S. employers distrust the works-council idea as a backdoor organizing tool for unions. And some just don't want to give up so much power: Many companies have a narrow concept of what teams are, defining them simply as groups of workers who find ways to do their own jobs better. But in a concurring opinion to the Electromation decision, NLRB member John N. Raudabaugh argued that even these teams might be considered labor organizations under the broad definition of the 1935 act, should someone press that point. So the best insurance may be truly to empower employees on teams, even if they represent only themselves.

That may sound revolutionary to many executives. But if Corporate America is serious about teams—and the results they produce—the Electromation decision need be no more than a healthy midcourse correction.

Bernstein is BUSINESS WEEK's Workplace editor.



WHEN TEAMS ARE ILLEGAL

A mid-December ruling by the National Labor Relations Board (NLRB) held that employee teams created by Electromation Inc. were illegal. Experts say that many companies have similar teams. Here are the primary factors to look for that could mean a team violates national labor law

REPRESENTATION Does the team address issues affecting nonteam employees—i.e., does it represent other workers?

SUBJECT MATTER Do these issues involve matters such as wages, grievances, hours of work, or working conditions?

MANAGEMENT INVOLVEMENT Does the team "deal with" any supervisors, managers, or executives on any issue?

EMPLOYER DOMINATION Did the company create the team or decide what it would do and how it would function?

CORPORATE WOMEN

JULIA STASCH RAISES THE ROOF FOR FEMINISM

The construction exec is building towers, toppling stereotypes

Ask a group of developers what concerns them most about the real estate industry, and the answers will likely include two things: occupancy rates (too low) and debt levels (too high). Julia M. Stasch frets about such things as well. But the president of Chicago's growing Stein & Co. has a much broader agenda.

Besides being one of the top-ranking woman builders in the nation, Stasch, 46, is an ardent feminist. She insists that women should be given the same chance as men to succeed or fail on the job. That's hardly a radical idea in most industries. But in the construction trades, where women make up only 2% of the work force, Stasch is a revolutionary.

And it isn't just rhetoric. Stein & Co., which has completed $775 million worth of projects since 1990, demands that contractors meet stiff affirmative-action goals. The result: Stein jobs employ about three times as many women as the industry average.

When putting up Chicago's new Metcalfe Federal Building, for instance, Stasch made sure women worked 54,000 hours, or roughly 7% of the total. At the towering USG Building nearby, 75 women, or roughly 6% of the work force, collected $1 million in wages. "She does it because she believes it's fair and moral and right," explains Chairman Richard Stein. "It's also good business."

Stasch and steel: She hired 75 women to work on Chicago's USG skyscraper

REBEL'S CAUSES. Indeed, Stasch's affirmative-action agenda has helped Stein & Co. bag some of Chicago's most lucrative projects. Stein will be the project manager for Chicago's new $750 million light-rail system, and it will build the $675 million expansion of the city's McCormick Place convention center. "We looked at what the developers had actually done—vs. what they were promising to do," explains Carmen P. Caldero, an official at the joint city-state agency that awarded the McCormick contract. "Stein & Co. developed the model that others are emulating. That was critical."

Stasch has always been something of a rebel. Although she grew up in the conservative Chicago suburb of Hinsdale, she headed in 1964 for Ohio's liberal Antioch College, drawn by its innovative work-study program. She dropped out in 1965 to spend a year as a VISTA volunteer on the Papago Indian reservation in Arizona. The tribe had hoped for an expert who could help upgrade its cattle herd but instead got a diminutive 18-year-old city girl. Stasch ended up helping create a tutoring program for high school dropouts who wanted to get their equivalency degrees.

After her VISTA stint, Stasch headed for San Francisco, arriving just before the fabled "summer of love." She took a job at a stock brokerage but lived a communal life at home, hanging around Golden Gate Park and going to Jefferson Airplane concerts. Eventually, she drifted back to Chicago, where she struggled through night school at Loyola University while working a day job. "That's why it took me 10 years to get through college," she jokes.

HANDS ON. She graduated summa cum laude in American history and began teaching high school on Chicago's South Side. One day, she bumped into acquaintance Richard Stein on the street and learned that he was looking for a secretary. She was tired of her long commute from one side of Chicago to the other and was lured by the possibility of a $5,000 raise from her teacher's salary of $13,000 a year. So she joined Stein's four-person real estate firm in 1976.

Stasch was not a traditional secretary. Almost at once, she began reviewing construction-loan applications and inspecting work in progress. With Stein handling finance and Stasch the day-to-day operations, the privately held company rose with Chicago's 1980s building boom. Stasch became executive vice president in 1988 and received an equity stake. She became president in 1990.

Stein & Co. has been something of a hybrid, developing its own projects and managing construction of others. Its recent focus on mangaging public-sector jobs, though, has helped it avoid many of the woes that have plagued the industry. That lets Stasch make time for other pursuits. She has testified before Congress about the dearth of women in the industry and is also board president of the Chicago Women's Business Development Center, a group that helps women start businesses. She also co-founded the Women's Issues Network (WIN), a group of 220 Windy City businesswomen.

WIN's biggest focus recently is a $200,000 effort to raise public support for RU-486, better known as the French abortion pill. "Reproductive choice is central to a woman's economic life," says Stasch, who, with her husband, a professor at Loyola, has chosen not to have any children. "I wouldn't be where I am today if I'd made the decision to have a family." For Stasch and Stein & Co., choice and equal opportunity begin at home.

By Julia Flynn in Chicago

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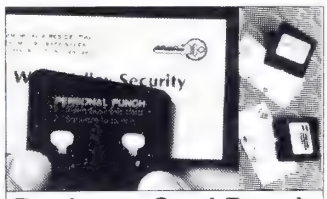

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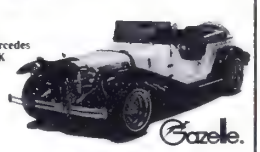

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Fitness

FLEX TIME: THE RIGHT STUFF FOR HOME WORKOUTS

If exercising ranks high among your New Year's resolutions, consider buying a home fitness machine. You won't have to travel to a gym or worry about changing clothes and fighting crowds. Home equipment can be pricey, but it's no more expensive than many health clubs—and you have to pay for it only once. Even if you belong to a health club, you may want a machine for days you don't feel like schlepping there.

As machines have grown more high-tech, they've become more fun to use. They can now set and rate your regimen, or even tell you how to lose weight. But people have misconceptions about their benefits. You can't, for instance, buy a $79.99 model from a late-night infomercial and expect miraculous results. Nor can you expect to lose weight in the specific body parts that are worked by a machine. Computerized machines cost top dollar—but they may be worth it. And if you're serious about fitness, you'll jog or swim as well as lift weights.

POUND-FOOLISH. What kind of machine should you buy? "The best machine is the one that you will do," says Ellie Ballew, marketing adviser at manufacturer Precor. Sign up for a temporary club membership to try the machines and learn how to use them. Then, head for the high end when you buy, says Jeff Zwiefel, director of the National Exercise for Life Institute, a nonprofit information center. Cheap equipment that is sold on TV or through department stores is often flimsy. It can break easily, vibrate, or make noise. "All that stuff people buy, they see it on TV, think they'll get a miracle, and it just gets dumped in the garage," complains Steve Rhodes, a vice-president at Paramount, a maker of weight machines.

Do your shopping at a specialty fitness store, where you can compare models and where the help is knowledgeable. A machine is a major investment. "It's not a toy, but a piece of medical equipment," says Precor's Ballew. Look for stability, durability, and ease of use. Quietness is a factor if, say, you want to watch TV while working out.

Most companies offer a range of models and prices. The mechanics of midrange machines are often the same as those at the top of the line. You pay extra for the electronics—computerized displays that record your speed, distance, and the progress of your workout. Don't underestimate the benefit of such gizmos when it comes to incentive. "The bells and whistles play an important part in motivation," says Jenifer Mason, associate director at the Cooper Aerobic Center in Dallas. But don't take machine readouts of heart rate or calories burned as gospel. Most are an approximation. True heart-rate gauges, say experts, strap around your chest.

TREADWARE. There are two kinds of equipment: aerobic and anaerobic, or weight lifting. The American College of Sports Medicine recommends both kinds of exercise to stay fit. If you can afford only one machine, remember that you can supplement a weight station with a run in the park, or complement a treadmill jog with a cheap set of dumbbells.

A treadmill is easy to use and offers a forgiving running surface. But a good one will cost "at least $2,000," says Joe Kaye, exercise physiologist at a New York health club. To get speeds of 8-10 mph and inclines of 10%, you'll want a continuous-duty motor of at least 1.5 horsepower. Check the width of the belt and the give of the deck to make sure the machine isn't too narrow or bouncy. Trotter's treadmills ($3,000-$6,000) stash the motor under the belt instead of under a hood at the front. This makes their machines

aller and quieter. Precor's sp ($4,500) has 96 courses, luding the Boston Mara- on. The newer 9.4E/L ,700) even programs a ight-loss plan for you.

Stair-climbers are popular working the legs, hips, l buttocks. Cheaper ones hydraulic pistons rather n a motor, which can make a stiff and jerky ride, says hard Miller, owner of the m Source, a fitness special- store in Manhattan. Better dels use motors. Tectrix kes the ClimbMax ($2,995), sidered by many the Cadil- of steppers because of its et, smooth ride. It has nine grams that operate at 12 eeds and can interact with ur personal computer to ord graphs of your prog- s or design new programs. t steppers tend to be hard the knees.

If budget is a big concern, sider a cross-country ski chine or a stationary bike. cent ones don't cost a lot l take up relatively little ce. NordicTrack is the pre- er maker of ski machines. sells eight models ($300- 300), which fold up to save om. Ski machines work ur arms and legs for great erall conditioning. But it es time to learn how use them.

DAL-PUSHING. Station- y bikes range from 0 to $3,500. The popu- Schwinn Air-Dyne 00) has handles to rk your upper body ile you pedal. For ctronics, check out ecycle from Life Fit- ss ($900-$2,500), which used in many health bs. The 6500 heart- e model ($1,595) even ds your pulse through handlebars. If the e is too high or low, bike automatically justs the resistance. t partly because bikes rk mainly the lower ghs, they can be bor- . And they can aggra- te any back or knee oblems.

For these reasons, the cumbent bike ($500- 000) is gaining ground.

A PHYSICAL FITNESS QUIZ

	True	False
1. Stair-stepping machines help you lose weight in your buttocks and thighs	☐	☐
2. Dumbbells work as well as weight stations	☐	☐
3. Weight lifting is an efficient way to burn calories	☐	☐
4. Aerobic exercise is more important than weight lifting	☐	☐
5. A recumbent bike is more efficient than an upright bike	☐	☐
6. Calorie counters should count on machine readouts	☐	☐

ANSWERS

1. **False.** There's no such thing as spot reducing. How you lose weight is a matter of genetics. 2. **True,** as long as you are doing the exercise properly. 3. **True.** Weight lifting builds muscle tissue, which is metabolically active and burns calories even while you're at rest. 4. **False.** The American College of Sports Medicine has recently deemed strength training to be as important as aerobics in adult fitness programs. 5. **True.** Recumbent bikes work the hamstrings, gluteals, lower abdominals and upper-thigh muscles, while uprights focus on the lower thighs. 6. **False.** Every individual's metabolism is different. Calorie counters on most machines give you only a rough approximation.

DATA: BW

Such bikes support your back, and your knees don't bend as much. Your legs are closer to heart level, so the blood pressure doesn't rise as much as it does on an upright. Recumbent bikes work more muscle groups than do uprights—toning the lower abdominals, thighs, hamstrings, and buttocks. But just because a machine works these parts doesn't mean that you'll lose weight there: You lose weight last where you gain it first—and that's determined by genetics.

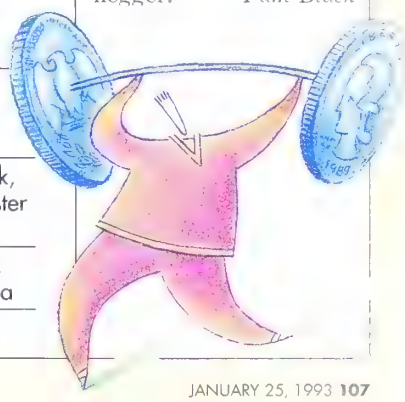
Like cross-country-skiing technique, a rowing stroke may be tricky to learn. And it can be hard on problem backs or knees. But a rowing machine exercises both the upper and lower body, and it can be stashed under the bed. Concept II makes the most common version ($700), which drives a flywheel against air resistance. For a more luxurious feel, try WaterRower's machines ($1,200-$1,600). On these rowers, the flywheel is submerged in a tank of water, which makes for an extra-smooth, quiet ride. For incentive-seekers, Lifecycle has a top-of-the-line rower ($2,795) that requires you to vary your speed as you compete with a cartoon rival on a 14-inch color monitor. When a helicopter drops oarsmen into the other boat, you must row faster; when a shark eats the crew, you can slow down.

Anaerobic muscle-building is also a good way to shed fat. Muscle tissue burns calories even when you are at rest, and muscle is denser than fat, so you can gain muscle and still drop a size. Home weight-lifting stations combine 20 to 40 exercises. Cheaper models may use bungee cords or coiled springs for resistance. But a stack of weights is preferred. You want cables that move effortlessly through the pulleys and don't have to be changed when you switch exercises. Good stations start at $1,300. Again, smoothness and durability are key. The American College of Sports Medicine suggests that you limit lifting to two days a week—unless you want to look like Arnold Schwarzenegger. *Pam Black*

MACHINES AT A GLANCE

Machine	Pros	Cons	Price	Some high-end makers
TREADMILL	Efficient, easy to use	Pricey, needs some maintenance	$2,000-$5,000	Precor, Trotter, Landice
STAIR-CLIMBER	Engaging	Hard on knees, hips	$1,500-$2,000	Tectrix, Bodyguard
ROWER	Total body workout	Hard on back and knees, tricky	$750-$3,000	Concept II, WaterRower, Life Fitness
BIKE	Inexpensive, space saver	Boring, hard on back and knees, works limited muscle group	$300-$2,500	Life Fitness, Tunturi, Bodyguard
RECUMBENT BIKE	Back support, works many muscles	May take up a lot of room	$900-$2,000	Life Fitness, Hoist, Calgym
CROSS-COUNTRY SKIER	Total body workout	Hard to learn	$300-$1,300	NordicTrack, Fitness Master
WEIGHT STATION	Builds muscle, burns fat	Takes up room, hard to learn	$1,300-$3,000	Paramount, Hoist, Vectra

DATA: BW



Planning

LEAVING YOUR CHILD IN THE RIGHT HANDS

The situation is nearly unthinkable: You and your spouse die unexpectedly. So what happens to your kids? However painful the thought is, it makes sense to choose a legal guardian—one who shares your ideas on child-raising—before it's too late. If not, a court will appoint a guardian without you.

As with other estate matters, the starting point is a will. Married couples should be sure to include a provision naming each other as guardian, because such an appointment "is not automatic," says John Trombadore, immediate past chairman of the New Jersey Bar Assn.'s family-law section. But spouses should also appoint an alternate—even two—in case both parents die in the same accident.

Picking a guardian is a matter of common sense. It should be someone you trust and who shares your values and religious beliefs. The person doesn't have to be a family member. Many couples tend to name a grandparent, but that option should be weighed carefully: Even though Grandma is in fine shape when the will is drafted, she may be too old to provide care when the time comes to step into your shoes. Another consideration: Should you keep siblings together or name separate guardians for each?

If you are leaving your kids a large estate, it might make sense to name a team of caretakers: a guardian to handle the child-rearing and a trustee to manage the money.

TALK IT OVER. Never appoint guardians before talking it over with them first. Subjects to discuss include whether they want the job and whether they'll raise the children in accordance with your values. As the years go by, review your decision. Someone who is good with toddlers may not be comfortable with teenagers. And if your children are old enough, get their views on the matter, advises Lawrence Frolik, a estate-law professo at the Universit of Pittsburgh lav school.

Even though yo have picked a guardian, the appoint ment will be re viewed by a judg after you die. Whil the court must cor sider the child' interests, the law i most states places "heavy priority" o the stated preferenc es of natural parents, say Christopher Wu, executive di rector of Legal Services fo Children in San Francisco.

If you die without select ing any guardian, some state have preference statutes t help the courts decide. Th laws specify which relative to consider—usually grandpar ents, aunts, and uncles Courts will also hold a hear ing in which others can ste forward or file objections t the candidate. Some judge will consult the children. Al that, however, can be avoide if you make your wishe known. *Michele Gale*

A GUARDIAN FOR THE KIDS

- Appoint a legal guardian in your will and name an alternate candidate in case your first choice can't serve
- Pick someone you trust who shares your values, ethics, and views on child-rearing. But be sure the proposed guardian wants the job
- Reevaluate your decision periodically to make sure the guardian is still willing and able to provide care
- If there's a large estate, consider naming a trustee to manage the finances

DATA: BW

Smart Money

NO-FEE NO-LOADS FROM, YES, BROKERS

No-load mutual funds appeal to do-it-yourselfers, who can buy directly from fund-management companies and save on the "load"—a sales fee levied by brokers. The drawback of the no-loads is that, in buying funds from more than one company, you have to deal with each separately. And the paperwork can pile up. Each fund generates its own statements.

For years, discount stockbrokers Charles Schwab, Fidelity Brokerage Services, Jack White, and Waterhouse Securities have helped investors by offering no-load mutual funds, collecting all the reporting on one statement—and charging for the service. The latest wrinkle from Schwab and White is no-load funds the way they're supposed to be—without fees.

Schwab's new No Transaction Fee (NTF) program so far includes 90 funds from nine fund companies. That's a small part of the more than 600 no-loads still available for a fee through Schwab's Mutual Fund Marketplace (MFM). White's no-fee list has 90 funds from 26 companies. Both firms hope to expand the programs. Waterhouse plans a no-fee program; at Fidelity, it's under consideration.

LONG HAUL. With the no-fee service, the fund pays the broker an annual 0.25% to 0.30% of the average monthly balance. If the fund already levies a "12(b)-1" distribution fee, the money comes from that. If not, the fund company pays. "The funds can pay because we do record-keeping, and for some, displace some marketing costs, too," says Tom Seip, an executive vice-president at Schwab.

Schwab's NTF program gets small investors around MFM's $29 minimum transaction fee. That minimum makes small purchases and redemptions costly, especially those of $1,000 or less. NTF makes it practical to set up a monthly investment regimen. The minimum is the one set by the fund: usually $1,000 for the first investment and $250 for additional.

White's no-fee program is for bigger shooters. There's a $5,000 minimum per transaction—or investors must pony up the $27 minimum fee.

You can't use no-fee programs for frenzied fund-switching. Schwab limits investors to four short-term redemptions—defined as sale of shares held less than six months—in any 12 month period. White has a 30-day holding period. Breaching the limits means transaction fees. Says Seip: "We've designed this program for long-term investors." *Jeff Laderman*

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Collecting

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ike most toy-train enthusiasts, Chuck Brasher started collecting as a d—when his father gave a 1937 American Flyer Today, the 54-year-old ding contractor has an enle collection of pre-World II electric trains—estied to be worth hundreds housands of dollars. His ss Valley (Calif.) attic wroom is a favorite among neighborhood kids.

'ollecting antique trains is thing but kid stuff today. a serious hobby with intment potential—for a wing number of adults t on recapturing childhood nories. "It's definitely tied ıostalgia," says Dick Chrisıson, editor of *Classic Toy ins* magazine. "I know y few collectors who didn't 're a Lionel or American er as a kid."

ndeed, it's espely the kids who w up in the 1950s, golden days of trains, who fueled first boom in the s and continue to d the market. The mbership in one ional club, the in Collectors Assn. A), has gone from 00 in 1971 to 000 today.

RE MINTS. Nostalaside, toy trains ve value because y just don't make em the way they ed to. The worknship and engiering that went into an old plate train would be too tly today. And as these old s become harder to find, alers say the prices will ep inching up.

But you had better have ience. Toy-train collecting more than an investment, s Brasher. It's a labor of love. "You can't go buy a bunch of trains, hold onto them for six months, and then expect to make any money," says Ed Prendeville, owner of the Train Collector's Warehouse in Parsippany, N. J. "It's not like the commodities market. But if you build your collection over time, you might not make out too bad."

Typically, postwar sets are the most in demand, because they were the ones that avid collectors, mostly men now in their 40s and 50s, had as children. Naturally, sets fetch the highest prices when they're in mint condition, in the original box. "The price appreciation has been highest for items in absolutely perfect condition," says Prendeville.

TAKE YOUR TIME, ADVISES PRENDEVILLE

Of course, these are the hardest items to find, because few people bought a train set and left it untouched for 30 years. These were toys, after all.

But say you found an unused Canadian Pacific passenger-train set, made in the mid-1950s by Lionel Trains. Five years ago, it might have fetched $5,000. Today, it would go for $7,000.

Condition, along with rarity, dictates how valuable your collection becomes. For example: In 1929, Lionel bought part of its bankrupt rival, Ives, and for several years made Ives trains under the Lionel name. One Ives set made in 1932 by Lionel would have sold for less than $50 then—but would fetch about $10,000 today in mint condition.

When you start collecting, "go slow and be careful," warns Tony Hay, a Huntington (W.Va.) dealer. He says the best deals are at the private meets of the TCA (717 687-8623) and the Toy Train Operating Society (818 578-0673). The truly obsessed congregate in York, Pa., twice a year—in April and October—for a three-day event sponsored by the TCA.

You must be a member of a club to attend its meets, but it's worth the $20 to $22 in annual dues to join. Mingling with other collectors is the fastest way to learn. Avoid buying trains at auctions and antique shows. Toy trains have many nuances, and a dealer who doesn't specialize in them may charge too much.

Many collectors find they're hooked for life. Dealer Prendeville recalls a man in Utah who sold his entire collection for about $280,000. "I filled a U-Haul and drove away with it all," he says. But only a couple of months went by before the collector was buying trains again. *Julie Tilsner*

Worth Noting

■ **MAKING GRADES.** For *The Kidstuff Survey*, Ellen Rosen Zuckert asked parents to rate 750 books, toys, and videos for preschoolers. The results are based on such factors as durability and include comments on children's responses. To order the $8.95 book, call 800 643-2940.

■ **SELF-HELP.** The 1993 edition of *Cut Your Own Taxes and Save* (World Almanac/Pharos Books) may let you skip the accountant. CPA George Smith clarifies tax rules in 29 concise chapters. The book has forms and tables—and its $4.95 price is deductible.

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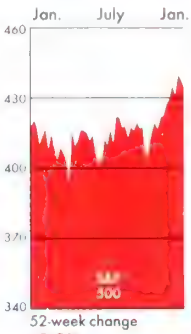
nvestment Figures of the Week

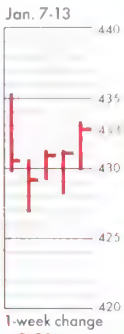
MENTARY

-term interest rates kicked up
ain was small, 0.10 percent-
oints, but unwelcome
theless. Analysts attributed
n upward revision of the fed-
deficit—and concern about
Clinton will deal with it. Also
ng to push rates higher was
avy supply of new corporate
municipal bond offerings.
ks sold off, too, but most of
amage was in the Dow in-
ials. The broader S&P 500-
index took a lesser hit, and
-cap stocks were barely
ed at all.

STOCKS

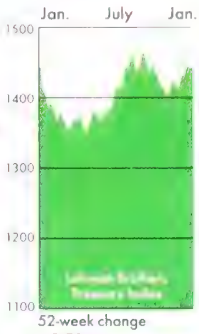


52-week change
+2.9%

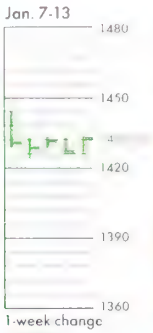


1-week change
−0.3%

BONDS

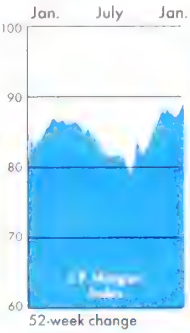


52-week change
+1.5%

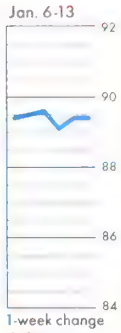


1-week change
−0.8%

THE DOLLAR



52-week change
+5.8%



1-week change
0.0%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3263.6	−1.3	0.2
IZE COMPANIES (S&P MidCap Index)	159.3	0.1	4.2
L COMPANIES (Russell 2000)	221.5	−0.1	8.4
OMPANIES (Russell 3000)	248.5	−0.2	4.2

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	2745.3	−2.9	8.2
O (NIKKEI INDEX)	16,517.9	−1.6	−24.1
NTO (TSE COMPOSITE)	3298.3	−1.6	−9.8

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.06%	3.16%	3.93%
30-YEAR TREASURY BOND YIELD	7.44%	7.35%	7.58%
S&P 500 DIVIDEND YIELD	2.93%	2.91%	2.95%
S&P 500 PRICE/EARNINGS RATIO	19.9	19.9	21.8

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	422.0	421.4	Positive
Stocks above 26-week moving average	64.0%	64.6%	Neutral
Speculative sentiment: Put/call ratio	0.37	0.34	Neutral
Insider sentiment: Vickers sell/buy ratio	2.75	2.63	Negative

IDUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

R-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
ACHINE TOOLS	22.3	64.7	GIDDINGS & LEWIS	28.6	72.7	29 1/4
EMICONDUCTORS	19.6	69.7	INTEL	30.8	93.4	102
OTELS AND MOTELS	15.9	41.8	PROMUS	33.7	130.4	62 1/2
RLINES	10.1	−10.9	USAIR GROUP	13.0	7.6	14 1/8
EFENSE ELECTRONICS	8.9	9.6	EG&G	18.6	−14.4	21 1/2
R-WEEK LAGGARDS	**% change 4-week**	**% change 52-week**	**Weakest stock in group**	**% change 4-week**	**% change 52-week**	**Price**
OMPUTER SYSTEMS	−10.2	−31.8	IBM	−22.5	−46.4	48 3/4
RUGS	−9.8	−25.0	PFIZER	−14.6	−19.6	68
OSPITAL MANAGEMENT	−9.3	−32.0	NATIONAL MEDICAL ENTERPRISES	−18.0	−38.3	10 1/4
IVERSIFIED HEALTH CARE	−9.0	−20.1	ABBOTT LABORATORIES	11.4	14.6	28 1/8
APER CONTAINERS	−7.6	−14.1	STONE CONTAINER	−18.8	−44.3	15 5/8

UTUAL FUNDS

MORNINGSTAR INC

DERS

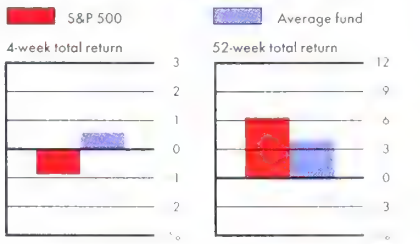
week total return	%
FA UNITED KINGDOM SMALL COMPANY	12.8
TEADMAN OCEANOGRAPHIC TECHNOLOGY	8.3
ERRILL LYNCH TECHNOLOGY A	7.6

eek total return	%
DELITY SELECT SAVINGS & LOAN	52.1
AKMARK	46.8
DELITY SELECT REGIONAL BANKS	44.8

LAGGARDS

Four-week total return	%
PILGRIM CORPORATE UTILITIES	−9.2
MONITREND GOLD	−8.9
FIDELITY SELECT HEALTH CARE	−8.4

52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−63.6
UNITED SERVICES GOLD SHARES	−55.4
MONITREND GOLD	−34.6



ELATIVE PORTFOLIOS

DATA RESOURCES INC

ar amounts
resent the present
ue of $10,000
ested one year ago
ach portfolio

centages indicate
-day total returns

Treasury bonds	U.S. stocks	Money market fund	Foreign stocks	Gold
$10,769	$10,486	$10,279	$9,364	$9,264
−1.78%	−0.76%	+0.05%	−1.64%	+0.24%

ata on this page are as of market close Wednesday, Jan. 13, 1993, unless otherwise indicated. Jan. 12. Mutual fund returns are as of Jan. 8. Relative portfolios are valued as of Jan. 12. A more detailed
stry groups include S&P 500 companies only, performance and share prices are as of market close explanation of this page is available on request

HIT THE GROUND RUNNING, BILL

All new Presidents enjoy a period of goodwill to push through important legislation. As President-elect Bill Clinton takes office, he has two paramount tasks that he must address if he is going to repair the ailing U. S. economy (page 28). Clinton has the backing of most Americans as he tackles the long-term structural problems that have hurt the U. S. economy. He must take advantage of that goodwill to push through his long-term economic plan while cutting the budget deficit.

So what should Clinton do? He ought to concentrate on his long-term agenda for the economy. That means investment incentives for capital formation, including an investment tax credit and capital-gains relief for new and small businesses. It means investments in human capital, including education, training, apprenticeship programs, and reform of federal aid to higher education. It means improving America's infrastructure and health-care reform. To his credit, Clinton has said what his long-term prescriptions are likely to be.

The other priority must be credible deficit reduction. And here, Clinton's performance to date has been much less reassuring. Clinton now says he wants to cut the budget deficit by $145 billion over four years—that is, the deficit would be $145 billion lower in fiscal year 1997 than the current Bush projection of $305 billion. That's an acceptable goal. The problem is that there is no sign as yet of how the Administration will cut spending and increase revenues. To attain the kind of cuts needed, there must be a drastic reduction in the growth rate of entitlements, with the most obvious candidate being health services. On the revenue side, consumption taxes make the most sense. In addition to increasing the federal gasoline tax yearly by 10¢ a gallon for five years, the U. S. is going to have to adopt some sort of broad-based consumption tax, like a value-added tax.

To get the maximum downward pressure on long-term interest rates, budget cuts must be ironclad and written into law, not some vague promise or nonbinding principle such as Gramm-Rudman. As one Federal Reserve governor has said: "You've got to have a statutorily unambiguous, program-by-program package." Without major deficit reduction, massive federal debt will continue to drain the nation's private savings, crowd out private-sector investment, and frustrate America's hopes for economic recovery.

MAKE CHAPTER 11 A SHORTER STORY

The heads of the big three airlines—American, United, and Delta—are complaining that the bankruptcy laws give ailing competitors an unfair advantage. On Jan. 6, Stephen M. Wolf, UAL's CEO, even wrote Bill Clinton calling for a commission to study the bankruptcy laws. The airline executives argue that the 20% of their industry that has taken shelter under Chapter 11 of the bankruptcy laws ca charge bargain prices and force healthier carriers to matc the fares or lose market share.

And airlines aren't alone in criticizing Chapter 11 thes days. Pensioners and labor unions want Congress to boos their standing in bankruptcies so that they will be able to co lect before other creditors, such as banks. Creditors an shareholders want to get a crack at submitting their own re organization plans before it's too late to save the ailing con pany. And some academics want to scrap Chapter 11 and le the market decide the sick company's fate.

When it took effect in 1979, Chapter 11 was intended t help troubled companies get back on their feet by temporar ily keeping creditors at bay. Promoting reorganizations ove liquidations to preserve jobs and assets makes sense in the ory. But as a practical matter, Chapter 11 can drag on to long, costs too much, and gives debtors too much power.

But Congress mustn't rush into reforming the law to sat isfy special groups. It should aim for changes that give cred itors and shareholders a greater say in the process. Lawmak ers should set tight deadlines for all parties to submi reorganization plans. That way, a company can't languish i Chapter 11 and waste assets—and is less likely to brin down competitors.

LEARNING FROM THE GERMAN SOCIAL COMPACT

German Chancellor Helmut Kohl is attempting to pu off a new "solidarity pact" in his country. If he is suc cessful in forging an accommodation among Bonn the business community, and labor, it could yield som lessons for many industrialized countries, including a U. S under new management.

The Germans realize that something is badly wrong wit their nation's economy. Wages and social benefits are so ex pensive that German companies are rapidly losing competi tiveness. The costs of reunification have been so great tha taxes must be raised. Kohl is marshaling all his formidabl one-on-one persuasive powers to persuade German indus trialists that rather than export jobs, they must take longer-term view and maintain the social compact that ha characterized German life for decades (page 52).

To achieve this grand goal, Kohl is taking the lead, a re freshing change in today's industrialized democracies. It isn' always a pretty sight, but he is wheedling, bargaining, an twisting arms to forge a consensus among a patchwork of po litical parties; among the federal, state, and local govern ments; and among unions, companies, and banks. The un derlying notion is hardly radical: If everyone sacrifices little bit, everybody will get through the current crisis. Th country might even set the stage for the next leg of growth The immediate benefit of all this to the rest of the worl should be lower German interest rates, and hence lowe rates in other countries. But the longer-term issue is hov does a nation face up to the necessity for some pain now i that creates conditions for future prosperity? Kohl's ap proach warrants careful study on this side of the Atlantic.

February 1

WASHINGTON
SALINAS FACES HIS TOUGHEST YEAR
STRATEGIES ▶KODAK ▶NOVELL ▶PEPSI ▶HYUNDAI

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BusinessWeek

RUARY 1, 1993 A McGRAW-HILL PUBLICATION $2.75

MANAGING AIDS

This is the story of how one mid-level executive at Digital Equipment struggled with managing an employee suffering from AIDS. It is a tale of fear and compassion, denial and hope, anger and humanity. It is a story that is being played out, in one way or another, in virtually every major American corporation.

PAGE 48

FRANK DALOISIO AND HIS MANAGER, JEAN LANGONE SMITH

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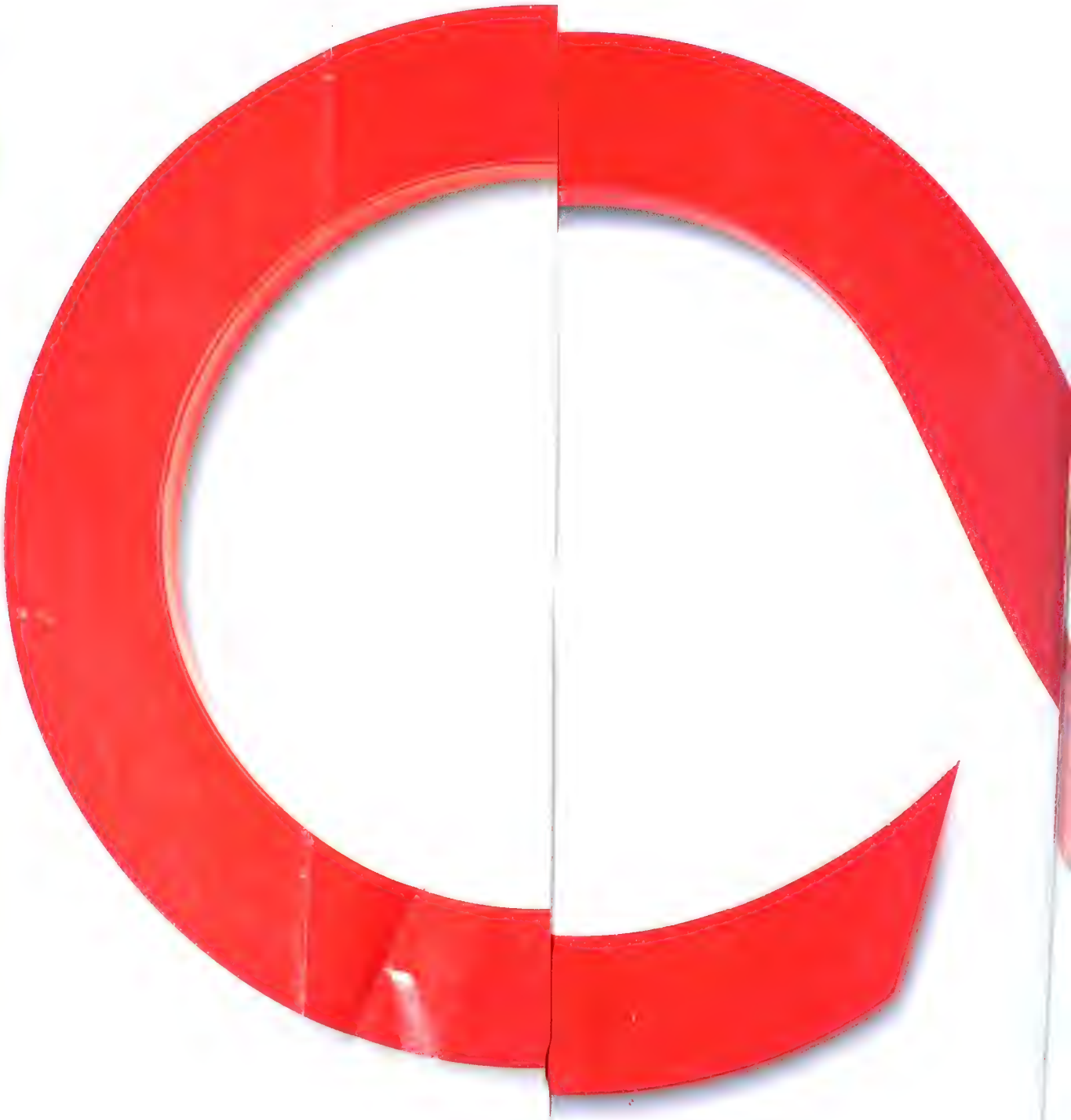
HOW A $25 BILLION TECHNOLOGICAL GIANT MANAGES TO REMAIN VIRTUALLY ANONYMOUS.



DUE

It's true we've FE spent the last half century pushing the envelope of technology harder than we've pushed our name. Our commitment to R&D (nearly $3 billion last year alone) has helped make us the world's second largest computer aker. And our advances in communications and microelectronics have ays taken priority over publicity. Today, our capabilities range from dheld computers to high-speed fiber optics. We make disk and e drives for many of America's leading computer manufacturers. ransistors that made direct broadcast satellite systems possible. And more of the application-specific ICs for modern computers and electronics than anyone in the world. You'll find our name in over 100 countries. Now we're making a name for ourselves in America.

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

a

b

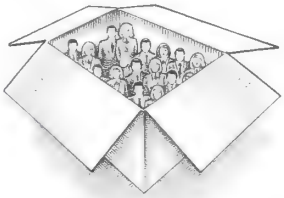
Widget ***a*** is cheaper than Widget ***b***.
Widget ***a*** is better than Widget ***b***.
Which widget would you choose?

It doesn't take a business degree to test the merits of Visa versus American Express.

All you need is a merchant's instinct for profit and the right information. From that point, the answer is pretty simple.

To begin, let's assume that a payment card's job is to make it possible for customers to spend money at your establishment.

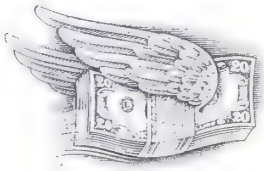
Well, Visa offers you about six times more card-carrying customers than AmEx. And Visa cardholders have money to spend, too. In fact, with five million more gold cardholders, and three times as many households with incomes over $50,000, Visa makes AmEx look a bit less golden.



We bring you affluent customers at a volume discount.

Visa has AmEx beat on the efficiency front as well. Our considerably faster payment schedule gives your cash flow a shot of adrenaline. Meanwhile, our highly tuned processing systems help keep your operations calm.

You shouldn't have to wait for payment.

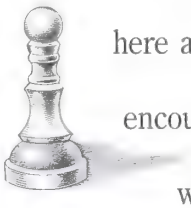


Since Visa is better, it must cost more, right? You know the answer to that one already. Visa's lower discount rates are as legendary as AmEx's higher discount rates.

Choose here:
☐ Make more
☐ Make less

Ultimately, it's your decision.

If this cost/benefit equation doesn't make sense to you, here are two suggestions. First, encourage your customers to pay with Visa instead of American Express. Second, negotiate a lower discount rate from AmEx. We'll be happy to show you how to do both. Just call us at 1-800-VISA-311, ext. 30.



You don't have to play AmEx's game.

And, finally, if you'd like to figure out exactly how much you stand to save by promoting Visa, ask for our free Profit Improvement Calculator. That number, again, is 1-800-VISA-311, ext. 30.

This concludes our little business quiz. You not only chose the correct widget, but you learned an important lesson, too: The easiest tests aren't multiple-choice. They're obvious-choice.

© Visa U.S.A. Inc. 1993

NUMBER 3303

BusinessWeek

FEBRUARY 1, 199

NOT FORGOTTEN: A QUILT COMMEMORATES LEVI STRAUSS WORKERS WHO HAVE DIED OF AIDS-RELATED ILLNESSES

Cover Story

48 MANAGING AIDS
Nothing is easy about HIV. For Frank Daloisio, a sales representative at Digital Equipment Corp., it has been a decade-long struggle—not only against illness but also to protect his privacy. Nor has it been easy for Jean Langone Smith, Frank's hard-driving boss: Frank's disease challenged her management skills and her humanity. This is the story of how one small office coped with AIDS

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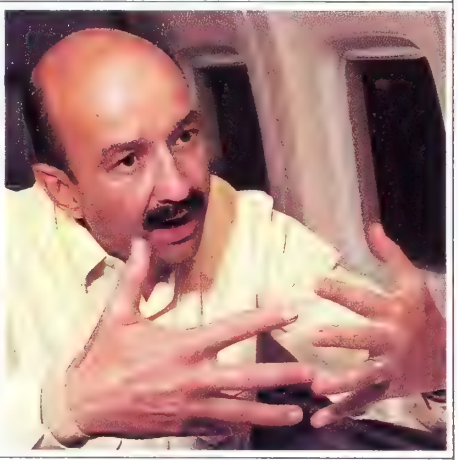

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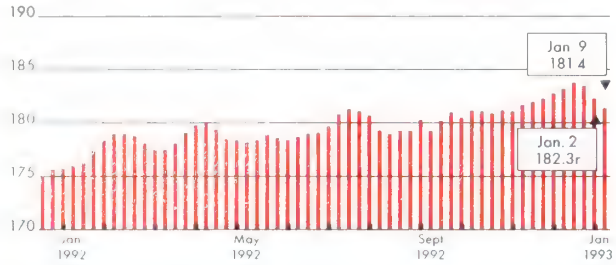
BusinessWeek Index

PRODUCTION

Change from last week: −0.5%
Change from last year: 3.1%

1967=100 (four-week moving average)

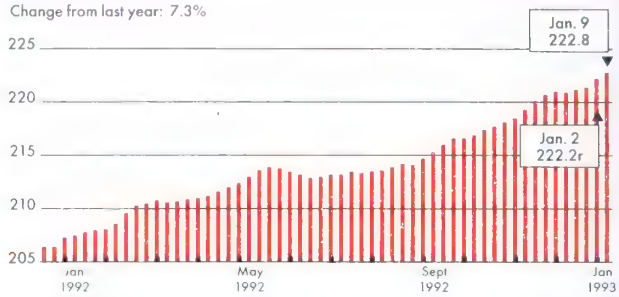


The production index fell during the week ended Jan. 9, but data for 4 of the 10 output series were unavailable for the week. Seasonally adjusted production of steel, crude-oil refining, coal, and lumber declined for the week, while rail-freight traffic and electric output increased. Production data on autos, trucks, paper, and paperboard were all unavailable. Before calculation of the four-week moving average, the index rose to 181.1, from 177.8 in the previous week

BW production index copyright 1993 by McGraw-Hill Inc

LEADING

Change from last week: 0.3%
Change from last year: 7.3%



The leading index edged up slightly during the week ended Jan. 9, continuing its steady climb. In the latest week, lower stock prices, higher bond yields, a large increase in the number of business failures, and some decline in the growth rate of real estate loans offset improvement in the growth of M2 and materials prices. Before calculation of the four-week moving average, the index was virtually unchanged at 223.7, from 223.6 in the week before

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/16) thous. of net tons	1,766	1,763#	0.7
AUTOS (1/16) units	122,160	95,594r#	23.5
TRUCKS (1/16) units	96,643	79,131r#	68.1
ELECTRIC POWER (1/16) millions of kilowatt-hours	60,678	58,012#	1.3
CRUDE-OIL REFINING (1/16) thous. of bbl./day	12,959	13,007#	-1.1
COAL (1/9) thous. of net tons	18,367#	14,469	−3.7
PAPERBOARD (1/9) thous. of tons	NA#	757.5r	NA
PAPER (1/9) thous. of tons	NA#	672.0r	NA
LUMBER (1/9) millions of ft.	435.1#	270.3	−7.8
RAIL FREIGHT (1/9) billions of ton-miles	20.6#	16.3	1.0

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

LEADING INDICATORS

	Latest week	Week ago	% Change year ago
STOCK PRICES (1/15) S&P 500	433.62	432.80	3.6
CORPORATE BOND YIELD, Aaa (1/15)	7.96%	7.92%	−2.9
INDUSTRIAL MATERIALS PRICES (1/15)	98.3	98.0	5.0
BUSINESS FAILURES (1/8)	428	390	3.6
REAL ESTATE LOANS (1/6) billions	$403.9	$404.2r	0.2
MONEY SUPPLY, M2 (1/4) billions	$3,443.3	$3,432.5r	0.6
INITIAL CLAIMS, UNEMPLOYMENT (1/2) thous.	343	291	−14.5

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & Bradstreet (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/20)	125	126	124
GERMAN MARK (1/20)	1.61	1.63	1.61
BRITISH POUND (1/20)	1.54	1.54	1.78
FRENCH FRANC (1/20)	5.51	5.53	5.49
CANADIAN DOLLAR (1/20)	1.28	1.28	1.17
SWISS FRANC (1/20)	1.47	1.49	1.43
MEXICAN PESO (1/20)	3.094	3.096	3.079

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Change year ago
INDUSTRIAL PRODUCTION (Dec.) total index	110.5	110.1r	2.9
CAPACITY UTILIZATION (Dec.)	79.3%	79.2%r	0.8
CONSUMER PRICE INDEX (Dec.)	141.9	142.0	2.9
PRODUCER PRICE INDEX (Dec.) finished goods	123.9	123.7	1.5

Sources: Federal Reserve Board, BLS

PRICES

	Latest week	Week ago	% Change year ago
GOLD (1/20) $/troy oz.	329.000	327.550	−7.5
STEEL SCRAP (1/19) #1 heavy, $/ton	99.50	99.50	11.2
FOODSTUFFS (1/18) index, 1967=100	201.6	200.6	1.7
COPPER (1/16) ¢/lb.	103.0	109.7	3.5
ALUMINUM (1/16) ¢/lb	56.5	57.1	5.4
WHEAT (1/16) #2 hard, $/bu.	3.94	3.86	−8.2
COTTON (1/16) strict low middling 1-1/16 in., ¢/lb.	54.16	52.85	5.7

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

MONETARY INDICATORS

	Latest week	Week ago	% Change year ago
MONEY SUPPLY, M1 (1/4)	$1,029.1	$1,029.5r	14.0
BANKS' BUSINESS LOANS (1/6)	278.9	279.9r	−4.6
FREE RESERVES (1/6)	1,115r	1,169r	80.4
NONFINANCIAL COMMERCIAL PAPER (1/6)	143.3	139.7	15.1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed for a two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	Year ago
FEDERAL FUNDS (1/19)	3.35%	2.91%	3.87%
PRIME (1/20)	6.00	6.00	6.50
COMMERCIAL PAPER 3-MONTH (1/19)	3.21	3.27	4.08
CERTIFICATES OF DEPOSIT 3-MONTH (1/20)	3.18	3.22	4.06
EURODOLLAR 3-MONTH (1/15)	3.24	3.29	4.10

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment.
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Readers Report

MICROSOFT DOMINATES ITS MARKET BECAUSE IT'S GOOD

If Borland, Lotus, and WordPerfect are considering a lawsuit ("The FTC vs. Microsoft," Top of The News, Dec. 28), I hope they reconsider and spend the money on development of their own products to become more competitive. To attack businesses that begin to dominate a market because they have done things right is also to kiss global competitiveness goodbye. What I would really like to know is how much of the American taxpayers' money has already been spent on this 30-month probe by the Federal Trade Commission?

Bill Burlingham
Lexington, Ky.

When American Telephone & Telegraph Co. was forced to break up, the country understood that far too many obstacles existed for competitors to develop and launch similar services. The same is not true in the software industry. If you want to compete with Microsoft, all you need is a personal computer and a great deal of determination and luck. For Borland, Lotus, and WordPerfect to expect us to watch and agree as they cry foul is ridiculous. They, like Microsoft, may have fine products, but I'd prefer to evaluate and decide for myself which ones I purchase.

David P. Geller
Falls Church, Va.

FOCUS ON A FREE MARKET, NOT AN INDUSTRIAL POLICY

The preoccupation with industrial policy by the new Clinton team fails to take into account that today's economic doldrums are a direct consequence of massive industrial policies that have been in effect in our country since the beginning of World War II ("Whatever you call it, industrial policy is on the way," Top of the News, Dec. 28). The only justification for an industrial policy is to produce a result other than that which would arise from the free market. The military-industrial Establishment, against which we were warned by President Eisenhower, is a direct consequence of industrial policies. What we most urgently need today is to reduce those policies to only that which can be justified on purely military-defense grounds.

Sure, we can point to isolated examples in which Japan's Ministry of International Trade & Industry has successfully targeted industries, but our failure to be competitive in this commercial market results from our massive diversion of talent and resources to the military-aerospace field. This is not a criticism of that industrial policy, because it achieved the objective of winning the cold war, but—now that this is behind us—the most urgent task is to revert to a totally free market economy that will outperform any other economies hampered by industrial policies.

William Vandersteel
North Bergen, N. J.

GTE'S MAIN STREET IS GETTING GREEN LIGHTS

Your article "Can GTE outdo Prodigy?" (Top of The News, Dec. 28) clearly defined the opportunities offered by GTE's interactive television service, Main Street, and correctly pointed out the advantages of providing services over cable rather than through computers. I'd like to clarify two issues, however. First, after more than four years of market testing, we do indeed know what services customers want. Customers value and access our educational, financial, and informational services the most, even though they may spend more time playing games on the service. Second, Main Street does not rely on commissions from shopping transactions for its profitability.

Tom Grieb, General Manager
GTE Main Street
GTE Corp.
Stamford, Conn.

WHAT ABOUT LABOR SECRETARY MARTIN?

So BUSINESS WEEK thinks that, Bill Brock aside, the Labor Dept. "has been headed by lackluster appointees for over a decade" ("Bill Clinton's balancing act," Editorials, Dec. 28). Well, just like BUSINESS WEEK, I wish Robert Reich,

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Secretary-designate, success. But, unlike BUSINESS WEEK, I would point out that Mr. Reich would do well to match the achievements of his predecessor, Lynn Martin.

Work-force learning and skills were Secretary Martin's top priorities. Job Training 2000 and the New Century Workforce were proposals developed to enhance the skills of Americans already in the work force. Our focus on skills standards and youth apprenticeship was directed at school-to-work transition issues faced by the 50% of America's youth, who don't ever go to college. And our amendments to the Job Training Partnership Act increased program accountability to make sure training could actually lead to a job.

Access to pensions, pension portability, and pension security were also part of Secretary Martin's 21st century workforce strategy. If the future means not one job but several careers, then the beginning of pension portability that President Bush signed into law is a step toward greater job security for America's working men and women. So is our effort to prevent another savings-and-loan-association-type bailout in the pension world by reforming laws that govern federal pension guarantees.

Steven I. Hofman
Assistant Secretary for Public Affairs
Labor Dept.
Washington

BIG RETAILERS CAN BE CONTROLLED —BY ENFORCING EXISTING LAW

Your story "Clout" (Cover Story, Dec. 21) is an overdue analysis of retailing giants' rule of the marketplace, and a timely memo to the incoming Administration. But it omits one vital issue. There's nary a mention of the Robinson-Patman Act, a law designed to protect smaller merchants, which forbids sellers from giving preferential pricing or support to big retail chains. Yet, using their "clout," retailing's goliaths too often exact precisely such favored treatment from unwilling suppliers.

Pertinent or outdated, Robinson-Patman has during the Reagan-Bush era been largely ignored by a Federal Trade Commission empowered to enforce it. And despite periodic threats to do so, the Congress—where Vice-President Al Gore has been a member of the consumer subcommittee of the Senate Committee on Commerce, Science & Transportation—has so far failed to mandate enforcement.

Do consumers and the economy benefit from closer cooperation between manufacturers and chains that sacrifice countless family merchants across the U. S.? These disappearing retail families have long been identified with local pride and achievement, thrived in supporting community causes and institutions, and willingly joined battles against neighborhood problems. While withdrawing revenue from localities, the absentee chain-store operators displacing such merchants rarely want "to get involved" in local issues. Their employees, earning close to minimum wage (a Clinton campaign issue), have little to spend on communities' needs.

Ironies abound, first in Robinson-Patman's 1936 sponsorship by a senior Arkansas senator but more pertinently in the state's status as the home of the nation's most powerful retail chain (Wal-Mart Stores Inc.), and in Hillary Clinton's tour as a member of this chain's board. While aggressive chains' adverse impact on the survival of local retailing has nowhere been more apparent than in Arkansas, one has to wonder whether the new Administration will ignore a federal law many consumers do not regard as anachronistic.

Edward H. Zimmerman
New Canaan, Conn.

CORRECTIONS & CLARIFICATIONS

In the story "Here's a hundred grand, go play" ("Strategies for stocks: The pros," Dec. 28/Jan. 4), we understated the performance of last year's stock picks by Carmine Grigoli, chief U. S. investment strategist at Baring Securities Inc. The 10 stocks he recommended in late 1991 were up 21%. Our calculation did not account for a split in Phelps Dodge, one of Grigoli's picks, which gained 48.5%.

In the Investment Outlook Scoreboard (Dec. 28/Jan. 4), the entry for TNT Freightways should have read as follows: Book value per share, $13; 1992 dividend rate, 56¢; yield, 2.73%; shares outstanding, 18.1 million; institutional holdings, 51%.

CLEAN TRASH? YES, WHEN IT BECOMES ELECTRICITY

I was pleased to see that a new kind of trash train may be comin' ("Pardon me, boy, is that a trash-combustion choo-choo," Science & Technology, Dec. 21), but your article was around the bend in suggesting that trash-burning steam engines are a new technology. In fact, there are 142 power plants in the U. S., burning 32 million tons of trash (16% of U. S. trash) and producing 17 billion kilowatt-hours of electricity a year. There are also 14 plants that turn trash into fuel pellets for use in boilers of all types. Electricity from trash is surprisingly cheap, 2¢ to 8¢ per kilowatt hour. And yes, we can burn trash more cleanly than coal. We are even cleaner than most oil-fired power plants. With new fluidized-bed boilers under construction, we may soon give natural gas some competition as the cleanest, "greenest" fuel.

Thomas A. V. Cassel, President
Reading Energy Co.
Philadelphia

INFRASTRUCTURE PLANS COULD HIT A FINANCIAL BRICK WALL

At long last, our nation's infrastructure crisis is being addressed as a top priority ("Road work ahead," Top of the News, Dec. 14). I share the concerns your article raises as to the magnitude of financing required due to the prolonged neglect of our public works . . . but the real financing challenge lies with issuers unable to access the capital markets because their projects do not have a demonstrated ability to generate revenues sufficient to service the debt issued. Investment-grade quality infrastructure projects are successfully financed through the municipal-securities market, which has the ability to efficiently distribute and absorb a high volume of securities. Last year's volume of newly issued debt is expected to exceed $210 billion, a record.

While your article thoughtfully examines some of the financing alternatives, let there be no rush to judgment. There are significant issues surrounding the use of a government-sponsored enterprise (GSE) to implement public policy. Take the case of the College Construction Loan Insurance Assn. (Connie Lee), which was chartered by Congress in 1986 to serve the lower-credit-quality end of the college and teaching-hospital market not served by the private sector. Instead, it has predominantly been involved in insuring or reinsuring institutions that the private sector also serves and where no additional insurance capacity has been required. Can a GSE be created that will not infringe on the historic private-sector role in successfully facilitating infrastructure financing? There are no models that would lead one to answer "yes."

Ann C. Stern, President and CEO
Financial Guaranty Insurance Co.
New York

Letters to the Editor should be sent to Readers Report, Business Week, 1221 Avenue of the Americas, New York, N. Y. 10020. Fax: (212) 512-4464, Telex: 12-7960, Intl. 4998204. All letters must include an address and daytime and evening telephone numbers. We reserve the right to edit letters for clarity and space.

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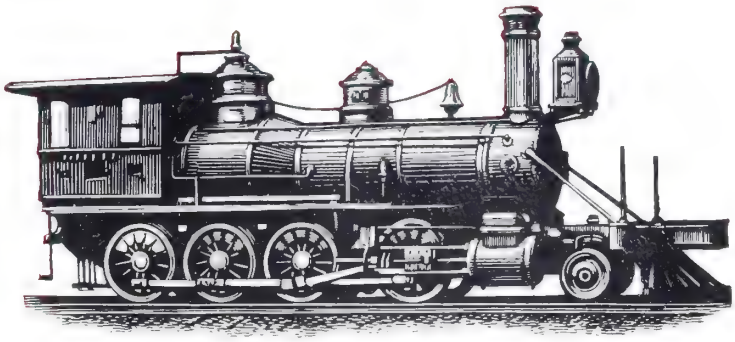

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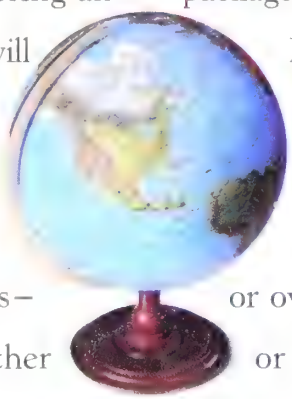

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AKING THE MUMMIES DANCE: INSIDE THE METROPOLITAN MUSEUM OF ART
Thomas Hoving
mon & Schuster • 447pp • $25

TOM HOVING'S GREATEST SHOW ON EARTH

Nowadays, the Temple of Dendur is one of the Metropolitan Museum of Art's most popular attractions. But finding funds to erect and house the Egyptian temple wasn't easy, former Met director Thomas Hoving notes—especially in the wake of the Six Day war. He failed repeatedly. Then Hoving recalled that physician/inventor Arthur Sackler had once mentioned his dream of uniting Israel and Egypt. He phoned Sackler, who came right over. Hoving "blurted out that he was the only patron with the guts" to fork over the necessary $3.5 million. Met by a stare, Hoving expected defeat. Then Sackler said: "I'll do it."

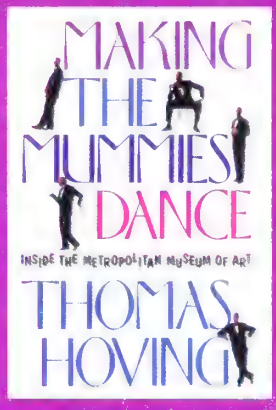
"Tom," Sackler added, "you must know why I sit there silent—around seventy seconds. . . . I wanted to dine out on the story that it took the great Hoving as long as seventy seconds to hit me for three and a half."

That anecdote neatly sums up the strengths and weaknesses of *Making the Mummies Dance*, Hoving's fascinating account of his tumultuous reign at the Met, 1967-77. The book is full of tidbits about the ways and means of America's moneyed class. It shows that a museum director dwells more often on finance and politics than on art or aesthetics. It makes Hoving look good, but too impetuous, and maybe vain. And some details sound just a bit off.

This lively memoir is part bravura, part bravado, and part braggadocio. Unfortunately, readers can't be sure which is which. Hoving, who admits to a "flamboyant, somewhat erratic image," describes exploit after exploit: how he shamelessly toadied to, cajoled, manipulated, or strong-armed anyone who could help him meet his goals of expanding, upgrading, and making the Met exciting. But many in the art world dispute Hoving's stories. Hoving undermines his credibility, too, with small mistakes in dates, facts, and sequences.

Hoving's breathless prose also raises flags. Consider his use of superlatives, which starts out plentiful and gets more frequent and more outlandish: A show of Italian frescoes "would be the most important exhibition ever held in the history of the United States." His building program was "the single most important architectural and philosophical undertaking in the history of art museums," provoking "the most controversial hearing in the history of the City Council." To buy Velázquez' *Juan de Pareja*, "the most important painting in world history," Hoving "secured the best agent on earth for free."

To hear Hoving tell it, when he ran the Metropolitan, he was the gallery's most valuable piece of work



That was before Hoving bought a Greek krater by Euphronios, "the single most perfect work of art I had ever encountered," in a cloak-and-dagger episode that soon "all the newspapers, magazines, and radio and television stations in the world had mentioned something about." And guess, in the context of Hoving's vast building program at the museum, what he calls the "most exciting construction project I had to deal with"? Why, the underground garage, naturally. True, to get the job done, Hoving says he threatened to sue the IRS, petitioned New York's traffic commissioner to raise nearby parking meter fees, and got city permission to let the Met charge low fees. But come on.

Approach *Mummies* with some skepticism, however, and it's a great read. Don't expect to learn much about art. Except for the Velázquez, art appreciation hardly figures in it. Rather, it's a window on the workings of museums.

Hoving's master expansion plan and his wooing of financier Robert Lehman for his fabulous collection—both triumphs—provide the main narrative lines. But they are minimal. Basically, Hoving rolls out story after story of his quests for art and money and his encounters with curators and such collectors as oil man Charles Wrightsman and long-time Met President Douglas Dillon. J. Paul Getty, Jacqueline Kennedy Onassis, Andre Meyer, Walter Annenberg, and Nathan Cummings (founder of what is now Sara Lee Corp.) are among the many who make cameo appearances.

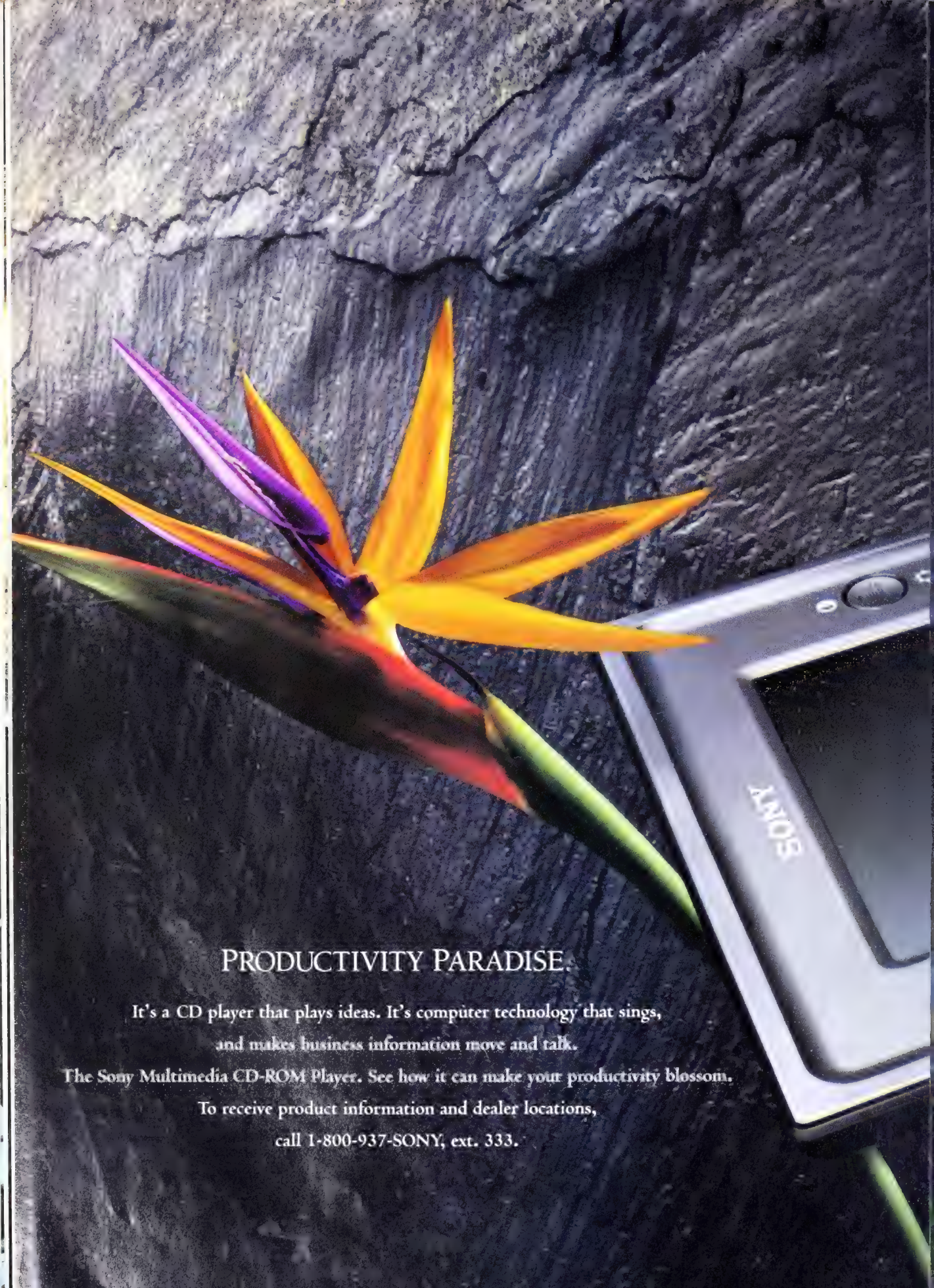
Hoving is often blistering. Nelson Rockefeller, he says, welshed on a promise to fund a primitive-art wing. Jackie O., who wanted the Temple of Dendur in Washington "as a memorial to Jack," declares: "I don't care about New York." And Hoving's personal descriptions can be nasty. Of Wrightsman's wife, Jayne, for example, he writes, "the only part of her that seemed genuine was her teeth." His stories provide equally sharp characterizations.

The self-portrait that emerges is none too flattering, either. Hoving recounts his defeats, such as the loss of a Greek bronze he tried to buy with Getty, as well as his conquests—though he devotes far more pages to the latter and plays up their drama. He tells of his trickery, shows his pettiness against foes, and displays his penchant for extravagance. It's no wonder that controversy shadowed Hoving; he often created it. In the end, he comes off as charismatic but slick, intent on achieving his goals his way, with the ends always justifying the means.

To give Hoving credit, he did stage many popular exhibits that made the Met accessible to a much broader audience. Although that alienated elitists, it anticipated the multiculturalism that museums now embrace. He won many treasures before he quit, following a tiff with some trustees. Recognizing his self-destructive tendency, Hoving notes that his friend and top curator Theodore Rousseau "would always pull me back when I was going overboard, which I tended to do more and more as the years went on." It's too bad Rousseau, who died in 1973, wasn't around when Hoving penned his memoir.

BY JUDITH H. DOBRZYNSKI

Senior Editor Dobrzynski covers the arts.



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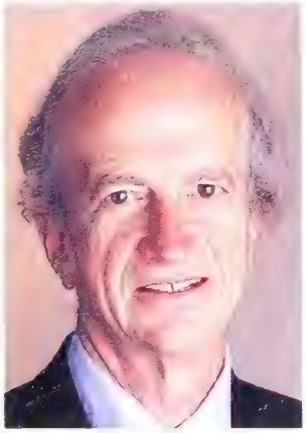
IF IT AIN'T BROKE, BILL, DON'T FIX IT

BY GARY S. BECKER



Members of the new Administration think they can help America compete globally by subsidizing technology and in other ways. But U.S. companies are doing just fine overseas

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

Some observers believe U. S. companies are hopelessly ineffective when competing internationally, especially against Germany and Japan. This belief is even fallaciously extended to include the woes of IBM and Sears, Roebuck & Co.—companies that dominated their markets not too long ago.

The truth is IBM and Sears lost ground not to foreign companies but to major domestic competitors such as Apple, Microsoft, L. L. Bean, and Spiegel. They declined because they were slow to recognize major trends in their markets. Sears became a giant by pioneering catalog sales to rural families, and it never adjusted well to the upscale demands of more affluent urban households. In the '60s and '70s, IBM controlled the world market for large computers, but did not foresee the growing significance of PCs and workstations.

In any country, successful companies tend eventually to lose their creative energies. In much the same way that the old saw has it about families—"From shirtsleeves to shirtsleeves in three generations"—sooner or later, companies begin to decline. The fate of the Great Atlantic & Pacific Tea Co. is particularly instructive. A&P was such a dominant force in the grocery business in the '20s and '30s that an ill-advised and costly antitrust lawsuit was brought against it by the Justice Dept. However, A&P is today a minor player in its industry because it failed to adapt quickly or successfully to the growing penetration of its market by stores springing up in shopping centers.

CATCHING UP. Listening to the critics, one might think that German and Japanese companies are way ahead. And it's certainly true that many companies in Germany and Japan are very well run—otherwise they would not have been so successful. The Japanese have been superior to other countries in producing automobiles, consumer electronics, and certain other goods, whereas the Germans are whizzes at high-quality products, especially machinery.

Yet the German economy has grown more slowly than that of the U. S. since the late '70s, while the gap between the rates of growth in manufacturing productivity in the U. S. and Japan has been sharply reduced in recent years. Service industries are much more productive in the U. S. than elsewhere, and this sector now accounts for more than half of all jobs in advanced countries.

Indeed, it could be tempting to misread the temporary difficulties of the German and Japanese economies as portents that their companies can no longer compete effectively for world markets. But it isn't necessary to depreciate the prospects of companies elsewhere t recognize that U. S. business is not losing it edge. American companies remain world lead ers in many products and services, includin aerospace, chemicals, software, telecommunica tions, pharmaceuticals, and securities market In the international division of labor, each in dustrialized nation tends to specialize in thos goods and services in which its companies ar the most efficient. Although no country ca dominate all manufactured goods and service any longer, the decline of U. S. business ha been grossly exaggerated.

A decade ago, the Midwest was written o as an important manufacturing center. Bu the region recovered and has led the boom i U. S. manufacturing exports during the pas decade. And while the U. S. allegedly has los its leadership in high tech to Japan, the trad surplus in what the Commerce Dept. call "leading-edge products" more than doubled from $16 billion in 1986 to $36 billion in 1991

MR. FIXIT? Other indictments of U. S. bus ness include the charge that executive suite pay too much attention to short-term profit and not enough to long-term planning, tha they pay top executives too much, that the fail to involve lower-level employees sufficien ly in decision-making, and that they hav started to neglect investment in research an development. But despite these assertions U. S. companies must be doing something righ because they are performing well enough i the competition for foreign markets.

As I see it, neither international competitio nor bad management poses the biggest dange to U. S. companies. The overall record of U. S business speaks for itself. Obviously, som U. S. companies have been badly run and nee restructuring. Yet many are holding their ow against the best from elsewhere, even thoug competition for world markets has intensifie during the past couple of decades.

The real threat is from an entirely differer direction. It is often argued that U. S. compa nies don't receive enough support from th federal government. But surely we do no need more misguided government efforts t regulate and assist business. Unfortunately some members of the new Clinton Administra tion believe that the government can hel U. S. business compete better in internationa markets by subsidizing promising technologica developments, mandating greater on-the-jo training of workers, imposing stricter env ronmental controls, and in other ways. On th contrary, I believe U. S. companies will conti ue to do just fine in world markets as long a they do not get too much interference fro government.

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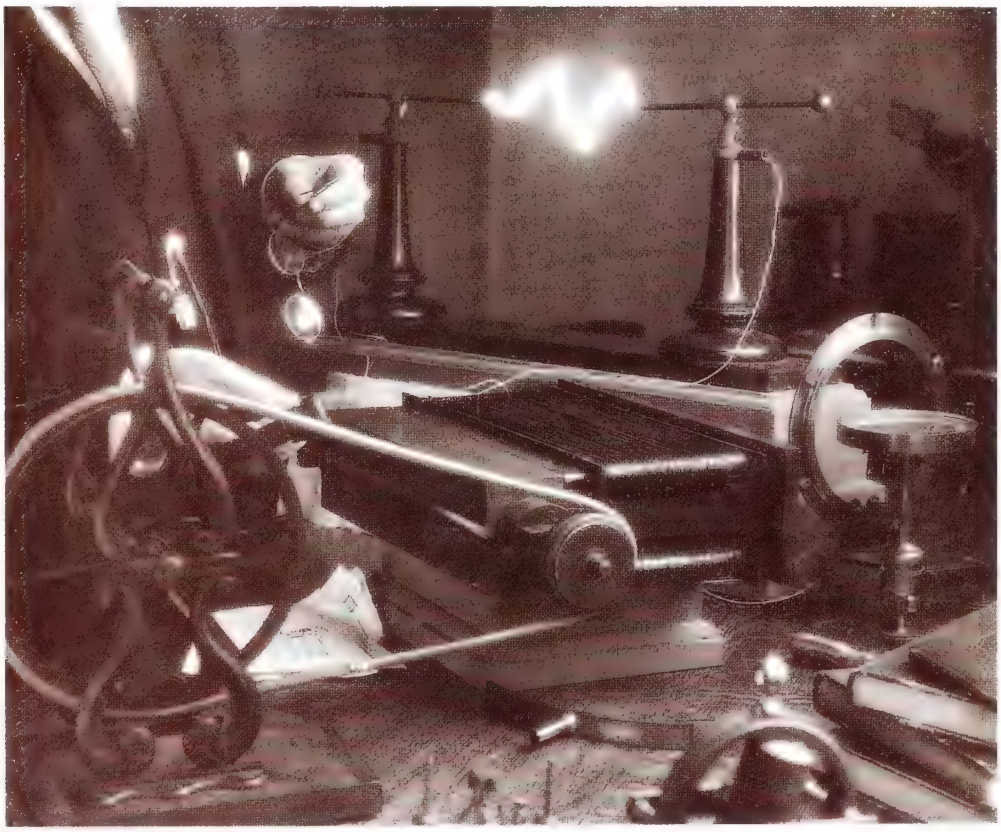

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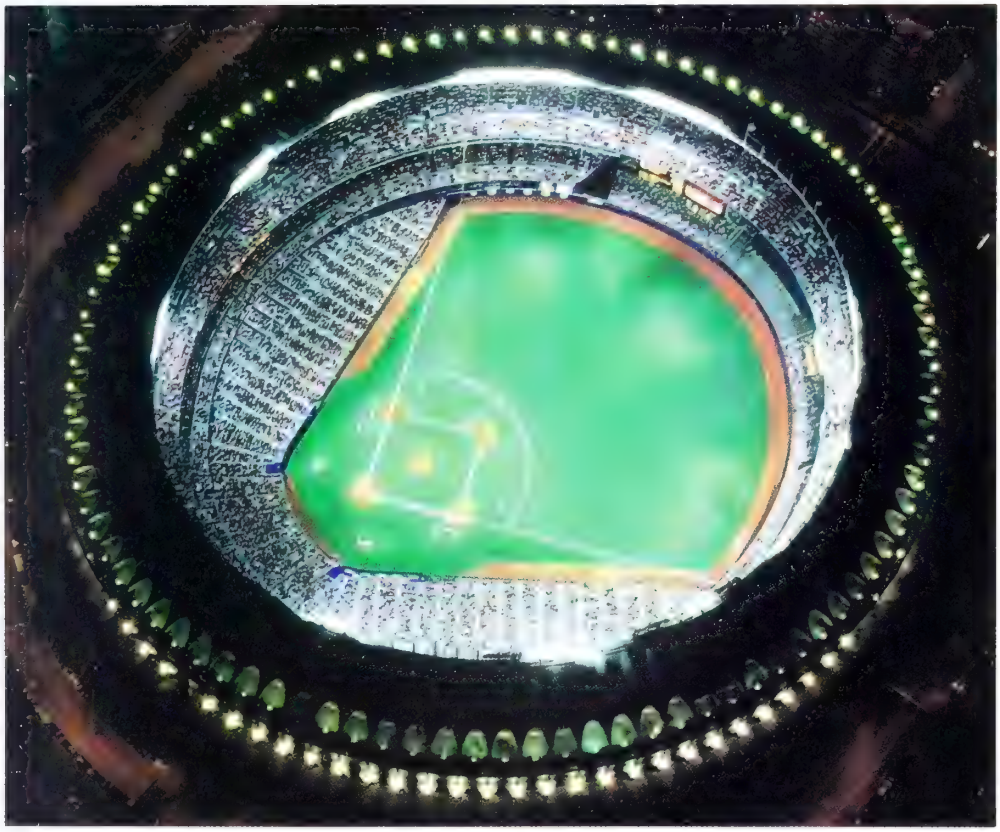

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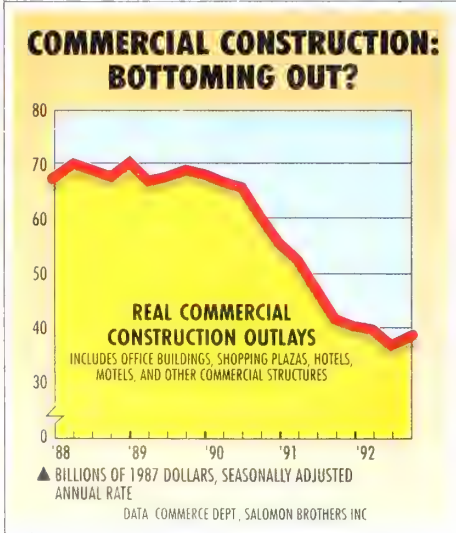
BY GENE KORETZ

A GLIMMER OF HOPE FOR COMMERCIAL BUILDERS

The downward spiral in commercial construction that began in 1990 may be drawing to an end. "Although any significant recovery in commercial construction activity probably lies years away," says economist Susan Hering of Salomon Brothers Inc., "there are hopeful signs that at least the continuing collapse in such outlays could be over."

There is no gainsaying the fact that commercial construction, which includes office buildings, retail and wholesale outlets, and hotels and motels, has experienced a wild roller-coaster ride over the past decade. Aided by new generous tax benefits, real construction outlays soared by 69% from mid-1983 through 1985, moved sideways after Congress took away many of the tax goodies in 1986, and then plunged by 37% between mid-1990 and the end of 1991.



The good news is that the downward plunge slowed markedly last year, with real spending leveling off late in the year. Hering notes that declining commercial construction outlays subtracted half a percentage point from economic growth in 1991, but only 0.1% in 1992.

Meanwhile, Cushman & Wakefield Inc. reports that the office-vacancy rate in central business districts in the third quarter of last year posted its first quarterly drop since 1989. And although construction outlays for stores, hotels, and motels continued to fall last year, the value of permits for new construction of such buildings rose.

While high office-vacancy rates promise to depress overall commercial construction for years to come, such activity in small metropolitan areas appears to be strengthening. And low interest rates and construction costs are inspiring some companies with specialized space needs to construct new offices for their staffs. Thus, says Hering, "although commercial construction won't be adding to GDP anytime soon, it should no longer be a drain on the economy."

STATE EMPLOYMENT GAINS ARE OUTPACING THE OFFICIAL TALLY

Several months ago, observers noted a sharp divergence between the nationwide payroll employment numbers provided by the Bureau of Labor Statistics and those provided by state BLS offices. The former showed rising job growth in the first half of the year, the latter registered a sharp decline. All of which led some economists to conclude that the government may well have been overstating employment growth for that period.

Now, however, economist Mark Zandi of Regional Financial Associates reports that the trends reversed later in the year. According to his calculations, from June to November (the latest month for which state data are available), the sum of the state estimates actually indicates that the economy added 140,000 more jobs than the BLS said.

"The state payroll numbers," says Zandi, "imply that nationwide job growth later in the year was even greater than the Labor Dept. reported." Noting that nonfarm proprietors' income has been rising at a 14% annual rate in recent months, he concludes that the government has probably underestimated the jobs created by new businesses and newly self-employed workers.

INFLATIONARY FEARS: VASTLY INFLATED?

Although the 2.9% rise in consumer prices last year was the smallest since 1986, Nancy Kimelman of the Technical Data Div. of Thomson Financial Services and R. David Ransom of H. C. Wainright & Co. Economics Inc. think even that number is exaggerated. "Aside from a few sectors such as health care," claims Kimelman, "inflation is almost nonexistent."

For one thing, the two economists point out that the consumer price index is based on a fixed-weight market basket of goods, whereas consumers continual shift their purchases from goods or se vices that have risen in price to tho whose prices have declined. And th government regards an item sold by discounter as a different product tha the same item sold by a traditional me chant, so shifts in buying habits towa discount outlets don't show up in th official measure of inflation.

Failing to reflect the shift to discour ers may be adding as much as 1% or 2 to the CPI's growth rate each year, sa economist Robert Gordon of Northwes ern University. And he estimates th inadequate recognition of quality i provements causes the government overstate the price of consumer durabl by about 1.5% a year.

Similarly, the increased availability coupons, rebates, and other promotion tactics isn't fully reflected in the CI Neither are negotiated prices, such those between car buyers and dealer "The Labor Dept.'s price surveyors do negotiate," says Kimelman.

One clear implication of such observ tions is that policymakers' fears abo resurgent inflation are excessive. A other less obvious one, notes Ransom, that "the economy's real growth ov the past year has been understated."

DOWNSIZED COMPANIES FEEL THE DOWNSIDE OF EARLY RETIREMENTS

While corporate downsizing meant to boost profitability, u welcome side effects can accompany o aspect of the trend: the attempt b many companies to soften the blow b offering older employees early retir ment "windows" with enhanced pensio and/or severance settlements. Accor ing to Right Associates, a Philadelphi based consulting firm, the response such companywide offers has often bee far more enthusiastic than anticipated

As reported in *Work in America*, monthly newsletter, a recent Right su vey of over 1,000 human resources exe utives revealed that nearly two-thir of these offering voluntary retireme programs said they had lost some er ployees they wanted to keep. One maj corporation, for example, anticipate 20,000 acceptances, but now expects th actual number to top 32,000.

Aside from the cash inducements, o serves a Right official, many executiv accept early retirement because th see a chance to put their business skil to work in their own ventures—skil that their former employers are oft sorry to lose.

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COMMERCIAL BANKING

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EBRUARY 1, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

CLINTON AND THE ECONOMY: THE INAUGURAL WALTZ MAY LAST A WHILE

Much to President Clinton's benefit, the economy looks better on Inauguration Day than it did prior to Election Day. So instead of worrying bout the economy's short-term problems, the new chief xecutive can focus his laser beam on his long-term goal o renew America." That means deficit reduction and rowth fueled by investment in productivity-enhancing quipment, human capital, and public infrastructure.

The latest data clearly show that the economy is danc- ng to a little livelier tempo. Consumers are more confi- ent and spending more freely. Industrial output is in a oderate but broad upturn. Job prospects are a bit righter. Inflation is the lowest in two decades, and there s no pressure under interest rates.

To be sure, Clinton can take little credit for the economy's better showing, but his victory—won on promises to fix a sagging economy—might have pumped up consumer confidence at yearend. But that raises the question: What happens when consumers' election euphoria evaporates? One of the few January indicators gives an encouraging answer.

A preliminary reading of the University of Michigan's ndex of consumer sentiment shows that household opti- nism dipped a bit in January, reflecting a big drop in ex- ectations for the future. That means that some of the ostelection elation may be subsiding. But at the same ime, consumers' assessment of their present conditions umped sharply—enough for the overall index to remain lose to December's higher level (chart).

ANOTHER 3% GAIN FOR REAL GDP?

Michigan's results suggest that consumers are beginning to feel the effects of generally improved economic conditions. The bad news is that the rate of improvement s still slow, and no one expects consumers to spend as apidly this quarter as they did last quarter.

Retail sales jumped 1.2% in December. And while No- ember buying was revised to show a 0.5% decline instead f the 0.4% gain originally reported, combined store re- eipts for November and December were still up 8% from year ago. As generally believed, holiday sales were in- eed the strongest since 1988. For the quarter, inflation- djusted retail sales probably rose by more than 10%, t an annual rate, the biggest gain in six years.

When fourth-quarter gross domestic product is reported on Jan. 28, real consumer spending is likely to weigh in with a hefty increase of about 5% at an annual rate. That means the economy has a good chance of posting growth of 3% or better for the second straight quarter.

The problem is that spending outpaced incomes. However, the increase in December personal income could be larger than expected. Call it the "Eisner effect." Many top executives, such as Michael D. Eisner, chairman of Walt Disney Co., chose to cash in their stock options in 1992 to avoid Clinton's "soak the rich" tax plans.

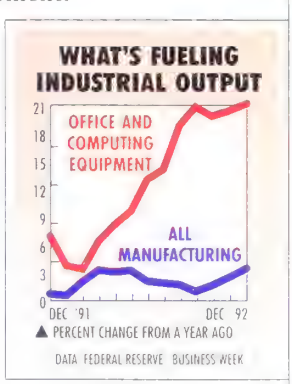
For the same reason, Wall Street paid part of its generous bonuses in December. No one else's windfall totaled Eisner's $193 million, but the practice was widespread. Still, the December income bubble benefited few households, and it is sure to burst in the January data.

FACTORIES SHOW RENEWED VIGOR

Like consumer spending, the industrial sector looked peppier during Clinton's swearing-in than it did during the campaign. Industrial output rose 0.4% in December, the third gain in a row after a summer stall.

Business equipment, especially office machinery and computers, is leading the renewed vigor in the factory sector. Production of computer and related goods has soared 21.2% over the past year, helping to lift total manufacturing output by 3.3% (chart). The push for productivity, along with a price war among computer makers, is stoking demand for this kind of equipment.

In addition, expectations of an investment tax credit mean that businesses will continue to buy machinery during 1993, but because Clinton has supplied few specifics on the ITC, some companies may hold off purchases until later this year. That delay would dampen business-equipment output early in 1993, but it would mean a bigger boost in the second half.



Meanwhile, carmakers are revving up their first-quarter production plans to the most ambitious pace in four years. Detroit hopes to assemble new cars at an annual rate of about 6.5 million this quarter, up from 5.7 million in the fourth quarter. In addition, output of light trucks may approach an annual rate of 5 million—which would be the most trucks ever produced in one quarter.

Detroit may have to scale back these plans if car-buying

remains at its weak pace of early January. Sales of domestically made cars fell to a 5.3 million annual rate from 6.6 million for all of December. And light trucks sold at a 3.8 million pace in the first 10 days of January, down from 4.6 million in the previous month.

The falloff in car sales may be an early sign that consumers are taking a break after their fourth-quarter splurge. However, department stores remain busy. Newsletter *Johnson Redbook Service*, published by Lynch, Jones & Ryan Inc., reports that store sales in the first two weeks of January rose 4.5% above their December level.

Manufacturers hope that any consumer retrenchment doesn't last too long. Domestic demand continues to be the main engine for output growth, as recessions across the globe slow U.S. exports. In November, exports dropped by 2.8%, to $38 billion, while imports fell a smaller 1.6%, to $45.6 billion. That resulted in a slight widening of the trade balance, to $7.6 billion in November, from $7.2 billion in October.

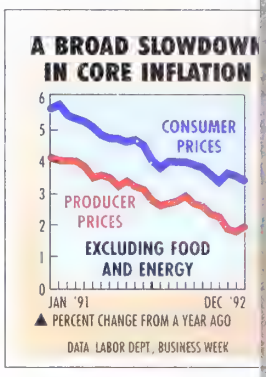
Hard times on the other side of the Atlantic have sorely hurt America's trade position. The U. S. trade surplus with Europe will probably total $8 billion for all of 1992, half of the $16.5 billion surplus rung up in 1991 (chart). U. S. exporters will have to count on demand from developing nations, especially in Latin America and the Asia/Pacific region, to take up the slack.

For now, it appears that any increase in demand, whether from at home or abroad, will trigger more gains in output. That's because inventories remain low. Business stock levels rose just 0.2% in November, with all of the gain at wholesalers and retailers.

The inventory increases in retail and wholesale trade, though, were not out of line with the faster pace of sales. However, the small rise in stockpiles also indicates tha nonfarm inventories grew more slowly in the fourth quar ter than in the third, resulting in a small drag in las quarter's real GDP.

PRICES SHOULD STAY PUT

After two false starts in 1991 and 1992, in dustrial output has finally returned to it pre-recession level of mid-1990. Capacit utilization, however, has not recovered b nearly as much. In December, operating rates for all in dustries rose to 79.3%, from 79.2% in November. Bu that's well below the 83.8% hit in July, 1990.



Excess capacity is one reason why inflation was so tame in 1992, and why price hikes will stay small in 1993. In December, consumer prices increased by 0.1%, after a small 0.2% gain in the previous month. Consumer inflation ended the year at 2.9%. And producer prices of finished goods rose by 0.2%, after falling 0.2% in November.

Indeed, inflation pressures in 1992 were consistently downward (chart). Excluding vola tile food and energy prices, the core rate of consumer pric es rose 3.3%—the lowest pace in 20 years. Core prices o producer goods were up by just 1.9%—the smallest year ly rise since 1983. With demand far from robust and labo costs rising slowly, inflation in 1993 could end up even low er than it was in 1992.

Low inflation gives Clinton more room to waltz th economy to his own tune. It means the Federal Reserv won't be so quick to hike interest rates as the expansio moves forward, particularly if the White House can put to gether a credible package of deficit reduction. That's im portant, because low rates are crucial to the investmen theme that flows through Clinton's policy goals.

THE WEEK AHEAD

EMPLOYMENT COSTS

Tuesday, Jan. 26, 8:30 a.m.

Labor costs of civilian workers probably rose by about 0.8% in the fourth quarter, say economists surveyed by McGraw-Hill Inc.'s MMS International. Compensation rose by 0.7% in the third quarter. Growth in labor costs has been slowing for two years because of shrinking pay raises. The cost of benefits, especially health insurance, continues to increase at a rapid pace.

FEDERAL BUDGET

Tuesday, Jan. 26, 2 p.m.

The Treasury Dept. is likely to report a budget deficit of about $10 billion in December. Quarterly tax payments will increase government receipts. In December, 1991, the U. S. government posted a red-ink total of $2.5 billion.

GROSS DOMESTIC PRODUCT

Thursday, Jan. 28, 8:30 a.m.

The MMS economists forecast that gross domestic product in the fourth quarter grew at a 3% annual rate, after rising 3.4% in the third period. Consumer spending, homebuilding, and an improvement in net exports will account for much of the fourth-quarter growth. Slower inventory accumulation and declining outlays for defense will partly offset those gains. The GDP price deflator probably rose 2.5% last quarter at an annual rate, a bit faster than the 2% advance posted in the third quarter.

DURABLE GOODS ORDERS

Friday, Jan. 29, 8:30 a.m.

New orders for durable goods probabl rose by 1% in December, after fallin 1.9% in November. A jump in car-buyin at yearend, though, indicates that th rise in new orders may be higher.

PERSONAL INCOME

Friday, Jan. 29, 10 a.m.

Income likely increased 0.3%, says th MMS report. However, bonuses paid ea ly and stock options exercised to avoi higher taxes in 1993 may boost Decem ber's income considerably. Consume spending probably jumped 0.6% in De cember. In November, income rose 0.2% and consumer buying advanced 0.5%.

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GETTING THE PICTURE

KODAK FINALLY HEEDS THE SHAREHOLDERS

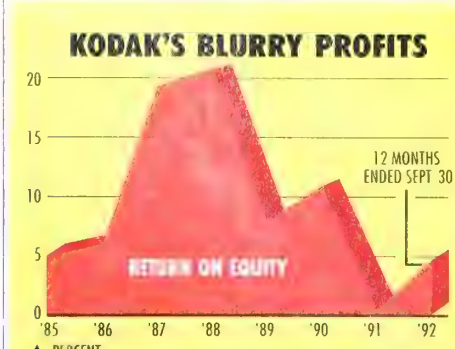
BACK TO BASICS: KODAK WILL REFOCUS ON PHOTO PRODUCTS

The $2 billion man. That's what they're calling Christopher J. Steffen at Eastman Kodak Co. headquarters. No wonder: Within days of Steffen's Jan. 11 appointment as chief financial officer, excited investors pushed up Kodak's long-languishing stock 17%, to around 49, boosting its market value by more than $2 billion. Traders applauded the arrival of the turnaround artist, whose experience at Chrysler Corp. and Honeywell Inc. could bring Kodak the help it needs.

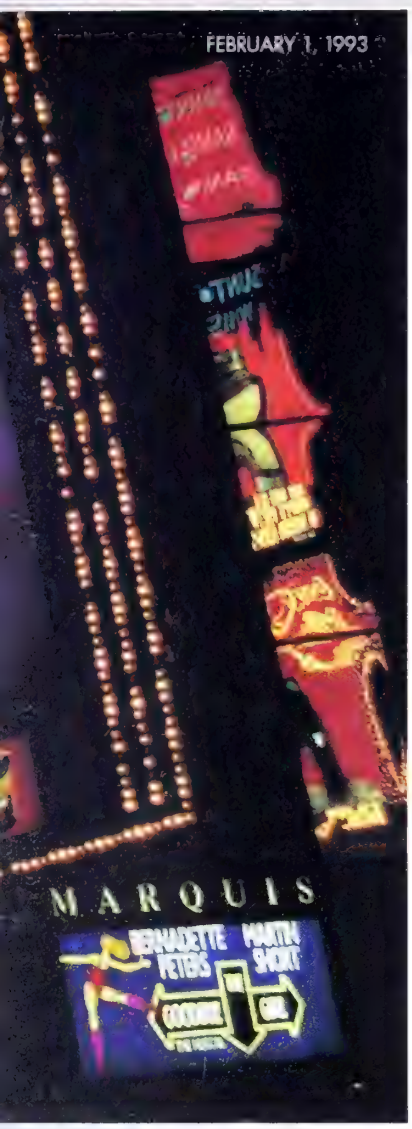
But investors also are hoping that adding an outsider to Kodak's insular executive suite signals a far more profound shift at the Rochester (N. Y.) giant. They may be right. After years of dismal earnings and cosmetic makeovers, insiders say Kodak Chairman Kay R. Whitmore has concluded that only radical surgery can rescue the company.

In an extraordinary *mea culpa* sent to shareholders on Jan. 19, Whitmore confessed that 1992 was another unsatisfactory year. The analysts' consensus is that Kodak made $1.07 billion last year on $20 billion in sales, barely better than 1991's $1.05 billion net before restructuring charges. Whitmore announced 2,000 layoffs—the first in 10 years—the likely closure of some factories, and the paring back of Kodak's ambitions in electronic imaging. He also pledged a back-to-basics focus on Kodak's high-margin photographic products. "If you look over a 10-year history, our performance on balance has been relatively poor," says Whitmore. "We're taking direct action."

It's a familiar refrain. But this time, Whitmore sounds like a man preaching a new religion: shareholder value. Under fire from activist investors, Whitmore has decided to run the company to maximize earnings and the stock price—a far cry from Kodak's traditional growth strategy. If taking care of shareholders means scaling



WHITMORE: "MORE REALISTIC" GOALS



e company down to match its market, be it. "Shareholders have been the ost underserved of our constituen-es," he confesses.

Activist investors welcome Whit-ore's change of heart, especially since 's backing it up with Steffen. "Very ainly, something big has got to be ld, and Kodak must focus back on its incipal line," says Robert A. G. Monks, nose Lens Fund targets corporate derachievers. "That's exactly what teffens] did when he got to Hon-well." The most obvious disposal tar-t: Kodak's money-losing copier divi-on, which analysts figure could fetch billion to $1.5 billion. Whitmore edges to turn around copiers in 1993 or o something substantial about it."

Whitmore didn't act without sharp odding from his restive board. They came alarmed by a tumble in the stock ice early last year, insiders say. The oard showed its displeasure by slashing Whitmore's bonus last year by 70%, to $140,000. And a new board committee will oversee the transformation effort. Whitmore acknowledges that his job is on the line. "If we can't get the full value out of the company, I'm prepared to go to the board and say, 'Maybe you'd better get somebody else.' "

The shift in philosophy at Kodak can't be overstated. The company had angered Wall Street by assuming that the slowdown in its core photographic market in the 1980s was only temporary. Its cost structure was predicated on a return to growth that never materialized.

Whitmore now concedes that Kodak's core market is nearly mature, and that growth won't bail the company out of its problems. "We've shifted to be responsive to the real world, and not the world we hoped would be there," he says.

The change in outlook has galvanized the Street. "This is a watershed transition for Kodak," says B. Alex Henderson, a Prudential Securities Inc. analyst who after five years of scathing reports on Kodak issued a buy recommendation on Jan. 12. "Finally, the internal debate at Kodak is not whether the market will grow at 5% or 8%, but about how you manage with 2% growth."

Whitmore is reinforcing the new emphasis on earnings growth with a revolution in Kodak's compensation system, which will tie executive pay to earnings. What's more, Whitmore has decreed that the top 40 executives must hold large amounts of Kodak stock, ranging from one to four times their annual salary (page 26). Most Kodak execs hold only a few shares. The plan gives them five years to boost their holdings.

Looking at the world through the prism of shareholder value is leading to another big shift in strategy. For more than a decade, Kodak executives have fretted about the impact of digital imaging on the company's core photographic business. If a digital camera can capture an image instantly, who needs traditional film, paper, and chemicals? The only way to sustain the company's growth, they figured, was for Kodak to go electronic. The company has poured more than $1 billion into electronic imaging research.

HAPPY HYBRID. But Whitmore has decided that boosting today's bottom line is more important than a distant threat. So Kodak is placing its bet on the Photo CD technology it introduced last year. Photo CD is a hybrid system that allows images captured on ordinary film to be transferred to a CD for display on TVs and computers. If the system catches on, Kodak could continue selling its high-margin film products for decades.

Why has it taken so long for Kodak to take such dramatic action? Kodak was so used to coining money from its photo business that it never paid much attention to costs. It wasn't until 1984, recalls Edwin P. Przybylowicz, a former senior vice-president, that Kodak even had the financial systems in place so that "the real bottom line emerged" by division.

Whitmore has made some progress since taking the helm in mid-1990. A $1.6 billion charge in 1991 removed some costs. But the company's pretax margin has fallen from 15% in 1986 to an estimated 8.7% last year. An improvement might not be far off: Whitmore plans to cut spending on imaging by $200 million in 1993 and $400 million in 1994.

LOOKING OUTSIDE. Perhaps more important, Whitmore and his lieutenants now realize that insiders can't do the whole job. Hence the hiring of Steffen. Whitmore says at least two more senior outsiders will be hired in the next year.

CFO STEFFEN: AN OUTSIDER WHO HAS WORKED WONDERS AT CHRYSLER AND HONEYWELL

As an agent of change, Steffen appears to be a good choice. At Chrysler, where the 50-year-old Steffen was treasurer for most of the 1980s, he's remembered for squeezing out hidden costs. And at Honeywell, which he joined in 1989, he dealt with problems similar to those he'll find at Kodak. An insular company, Honeywell was floundering, despite repeated restructurings. The reason, says Chairman James J. Renier: "We had a lot of cost problems." Steffen put every manager through a financial training course. "We forced people to think about the cash implications of what they were doing," he says. One result: Honeywell pared its working cap-

ital need from $2.2 billion to $1.6 billion.

At Kodak, Steffen will build cost-consciousness into the culture by benchmarking against the world's best companies. "You motivate people to change by judging them against a benchmark. Then it becomes pride. Then it becomes a cultural change."

Steffen also sees a need to trim Kodak's huge borrowings. "The company can't exist with $10 billion in debt and $19 billion in sales," he says. His goal is to cut Kodak's ratio of debt to total capital to 30% or 40% from the current 59%.

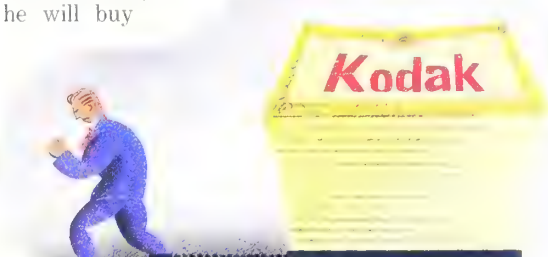
Steffen predicts that Kodak will be easier to turn around than Chrysler, where production capacity was double its breakeven point. "When you look at the strength of Kodak's products, its distribution system, and its quality reputation worldwide," he says, "this is a company strongly positioned to skip the turnaround stage and go to a transformation." Wall Street agrees.

By Mark Maremont in Boston, with Elizabeth Lesly in New York

NOW, A BIG JOB AT KODAK MEANS YOU'LL BUY A BIG STAKE

Ever since executive pay took off in the 1980s, shareholders have wondered how to forge a stronger link between pay and performance. Bonus plans tied to the bottom line have helped. And stock-option plans have helped wed executives' fortunes to those of shareholders.

Now, a growing number of big corporations are deciding that it's time for an even stronger bond between executives and shareholders. That's why Eastman Kodak Co. announced on Jan. 13 that its top 40 executives will be required to invest the equivalent of one to four times their base salary in Kodak stock. Kodak Chairman Kay R. Whitmore says he will buy stock equal in value to four times his base salary of $957,693. Major share ownership means that "senior managers will act and behave like owners of this company—because they will be substantial owners," Whitmore declared in a statement.



That may sound a bit wishful, but Whitmore isn't the only chief executive officer who believes major executives should be major shareholders. Xerox Corp. also requires senior executives to own stock. Household International Inc. has a similar policy, while others have less formal guidelines. Executives at big companies, such as CSX, Gerber, American Express, and Chrysler, are "encouraged" to own stock. And to ensure compliance, many companies tie future pay hikes and job perks to meeting stock-ownership goals.

QUICK CASH-OUT. Such policies are a tacit admission that stock-option plans aren't enough. Many companies that liberally offered options to executives have found that managers tend to cash out quickly. That was especially true in 1992, when many executives feared that President Clinton would impose a tax on high executive salaries.

Some executives question whether a company has the moral authority to tell employees how to spend their own dough. But so far, no executive has been known to challenge stock-ownership requirements. If anything, the rate of compliance is high. At CSX Corp., 167 out of 170 senior managers have met the company's goals by purchasing stock equivalent to twice their salaries. The three who haven't complied have been exempted because of personal financial reasons.

For their part, Kodak's brass may want to get in on their company's climb. Over the past 20 days, Kodak stock has zoomed up some 17%, to around 49. And it may continue to rise if Kodak's latest restructuring works out. Of course, if the stock sinks, managers could start complaining that their wealth is wasting away. But then, that's what Kodak shareholders have been doing for some time.

By Grace M. Kang in New York

INSTITUTIONAL INVESTORS

PUSH COMES TO REFORM

Activist shareholder CalPERS reports success—and new targ

Eastman Kodak Co. isn't the c company suddenly responding shareholder activists. Look at California Public Employees' Retirem System's record. Last January, CalP had settled its score with just 2 of the poor performers it targets for cha each year. Several were stalling; oth had refused all contact—until the billion fund publicized their names. N "we are stunningly further ahead," ults General Counsel Richard H. Koppes.

SEARS' BRENNAN

Although CalPERS has, until now, kept its 1993 target list quiet, seven companies—Champion International, Boise Cascade, Time Warner, Polaroid, Westinghouse, Mac Frugal's (formerly Pic 'N' Sav), and Sears—have agreed to change how they're governed. CalPERS is set to meet with four: vanced Micro Devices, IBM, Chrys and Sizzler Restaurants. Pennzoil has agreed to talks.

Most of the pacts involve better bo room practices, such as creating an i pendent nominating panel. But it's talks with CEOs that count: They c performance and strategy, often lead to real change. Sears, Roebuck & for example, last fall said it would di several businesses, a goal of several vestors. CalPERS says Sears CEO Edw Brennan soon will acknowledge that tivism has boosted shareholder va Sears says it's considering that.

GRIM CHOICE. CalPERS also pioneere promising tactic: meeting directly w board members. "We've had direct repeatedly tell us, 'Thank you for giv us backbone,'" says Koppes.

Other activist public funds are having better luck this year. Credit trends: Activists are focusing more performance laggards, even when t ask for procedural changes. And com nies now know that if they don't t they may face raucous annual meeti and shareholder resolutions made m potent by updated federal proxy ru By comparison, a meeting with shareholders sounds positively harml

By Judith H. Dobrzynski in New Y

Commentary/by Judith H. Dobrzynski

IBM'S BOARD SHOULD CLEAN OUT THE CORNER OFFICE

nce again, the news from Armonk is bleak. On Jan. 19, IBM posted a 1992 loss of nearly $5 ion, the biggest in U.S. corporate tory, and an operating loss in the rth quarter—its first ever. For all restructurings, personnel shifts, l product initiatives, the world's bigst computer maker still resembles hing so much as a flailing giant une to extricate itself from the mire of outdated strategy and culture. No nder more and more IBM-watchers calling on the board to dump Chief ecutive John F. Akers.

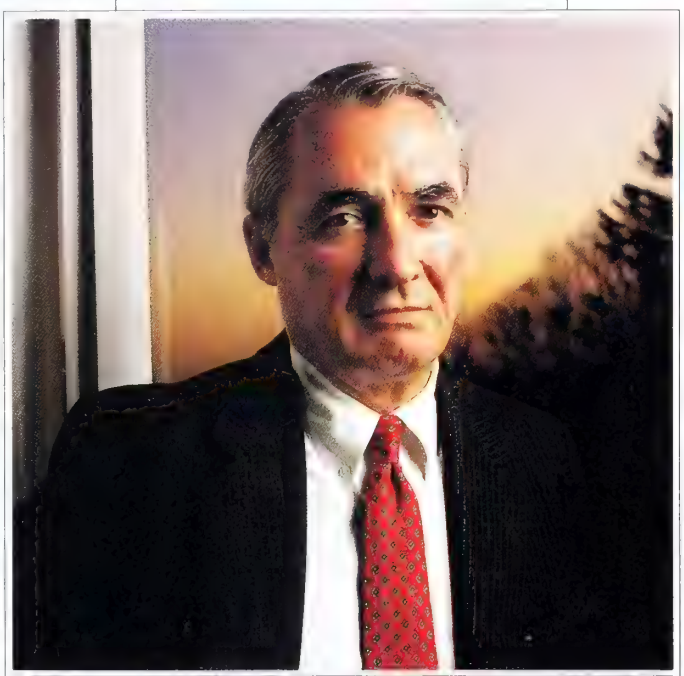
The directors, who will et next on Jan. 26, seem think the free advice is rth just what they paid it. They shouldn't. ghting IBM requires a sh perspective at the top. IBM's board is not discuss- Akers' ouster—and conering an outsider as a ccessor—it, too, needs sh blood.

SKY DELAY. Firing and recing a CEO is particularly igh at a company as big l complex as IBM. Choos- the wrong person could disastrous for thousands employees and shareholds, as well as the U.S. nomy. But the risks of lay are even greater. "A lapse equivalent to those perienced by Wang, Con- l Data, or Prime [Comter] is not at all improbae," warns consultant arles H. Ferguson, a for- r IBMer and author of forthcoming *Computer ars*. He has written to Big ue's directors urging a new strategy.

The case against Akers could begin ars ago, when he and IBM's other top ecutives refused to believe that their y mainframe business would soon be lipsed by smaller machines—despite M's own sizable PC, minicomputer, d workstation sales. Long after it came clear that the cost and comexity of mainframes were making em uncompetitive, they remained M's strategic cornerstone. Even kers' famous 1991 tirade urging IBM's les force to get moving—seen as a is then—fought reality. Mainframe les have gone into a tailspin.

Since then, Akers has made two more major stabs at fixing the company: a late-1991 plan to break IBM into 13 independent units and a late-1992 plan to further empower them. Although billed as bold moves that would alter IBM's bureaucratic nature, they, too, have produced little improvement.

The most damning bill of particulars against Akers, however, concerns his recent actions. In December, IBM bolstered management by rehiring two retirees, Kaspar V. Cassani and Paul J. Rizzo—both mainframe-era veterans.



AKERS' ERRORS, STARTING WITH AN UNREALISTIC FAITH IN MAINFRAMES, STRETCH RIGHT UP TO THE PRESENT

Then, Akers compounded that error by elevating Robert J. LaBant, a top salesman, and Ned C. Lautenbach, known for his marketing skills, to the management committee—and making them heirs apparent. Each is a loyalist, unlikely to propose the necessary drastic steps. "They are not the right solution," says the CEO of a successful large company—and IBM customer.

Not surprisingly, Akers' personnel choices show that IBM is still a closed system. The route to the top has been through sales, marketing, or finance—not technology—and dependent on political skills. Doing something the IBM way is more important than getting it done, and delivering bad news to higher-ups has been a sure way to short-circuit a career. Still, Akers' recent moves have set off alarms. They show that Akers neither understands the magnitude of the problem nor the speed required to solve it—let alone the right formula for change.

SHORT LIST. That's why, if they haven't already, IBM's directors should take matters into their own hands. Saving IBM requires more than a tweak here and a tweak there. Many industry experts say the company must cannibalize the mainframe business in a steady, managed way, with smaller, high-powered products of IBM's own. To change so dramatically, "you need someone who can make a fresh start," notes Harvard business school professor Rosabeth Moss Kanter, an expert on large companies. Directors should thus begin searching for an outsider to handle the job. And since, as executive recruiter Thomas J. Neff notes, few people would fit that bill, directors should look within IBM for any so-called inside-outsiders who have survived IBM's culture.

Is IBM's prestigious board up to the job? James E. Burke, the former Johnson & Johnson CEO who acts as IBM's lead director, could not be reached for comment. Last fall, he backed Akers squarely. It's unlikely the independent directors have since changed their minds. But considering IBM's condition, at the very least, they now should be meeting alone regularly. They should have embarked on a fact-finding mission—seeking information and analysis, with Akers' cooperation, from middle management, customers, and computer mavens, the way John Smale did in the past year at General Motors Corp.

Last, they should be setting performance goals and deadlines for achieving them. Somebody's feet—Akers' or a successor's—must be held to the fire.

Dobrzynski often writes about boards and management.

Commentary/by Lee Walczak

IS THAT 'SLICK WILLIE' SLIPPING BACK INTO TOWN?

Long before Bill Clinton brushed the confetti off his inaugural tux and settled into the Oval Office, comedian Jay Leno was skewering "the failed Clinton Presidency." Clinton, who loves a good Mario Cuomo joke as well as the next guy and has a nice self-effacing quality about him, normally would chuckle over the constant overanalysis of his every move.

But now Bill Clinton, upwardly mobile Arkie, has become William Jefferson Clinton, President. And the word from 1600 Pennsylvania Avenue is: We are not amused. Clinton's recent press conference was marked by testiness. That's because he's fighting the perception, held by Beltway *cognoscenti*, that his transition was a bit of a dud.

ENCORE? In his inaugural address, Clinton promised to shake the grip of "power and privilege" on U. S. politics. His Cabinet choices send another message. Clinton's team "looks like America" only if you think America is a nation of lawyers. Ronald H. Brown, Clinton's pick to head Commerce, and Zoë Baird, his choice for Justice, had to explain embarrassing ethical lapses. Clinton's micromanagement has slowed appointments to a crawl. And he has been waffling on campaign promises.

Is "Slick Willie" back for an encore? Perhaps. Consider the trail of bent or broken promises: Clinton retreated on his pledge to halve the budget deficit and has muted calls for a line-item veto. After urging a tax cut for "the forgotten middle class," he now suggests the deficit may rule that out. Instead, Clinton may opt for a broad energy tax or a small gasoline tax hike earmarked for infrastructure. Clinton once insisted that higher gas taxes would devastate the working class.

"Slick Willie never really disappeared," says Linda DiVall, a GOP pollster. "We're seeing the familiar pattern of evasion and expediency." Nonsense, Democrats reply. Says Mike McKeon, an Illinois pollster: "Presidents can never change their mind, but politicians can 'reassess.' Clinton merely took advantage of that, and it was a smart move."

To give Clinton his due, some of his shifts look routine. He promised an economic plan "on Day One." No one seems shocked that he missed the deadline. Similarly, Clintonites report that health-care reform is likely to come in the form of small sutures rather than a miracle cure. Plans to "end welfare as we know it" may be deferred. And candidate Clinton's "Y'all come" invitation to the Haitian boat people was hastily rescinded.

Clinton vows to shake the grip of 'power and privilege.' But his Cabinet choices send another message

THIRD FORCES. Clinton strategists insist that none of this will matter much come 1996, when they expect a robust economy to be their salvation. "Republican caterwauling aside," says Democratic pollster Alan Secrest, "voters are not so simplistic as to hold politicians to all their promises."

Who's right in this debate over unkept vows? Though no polling data back up the contention yet, it might be the sour-grapes Republicans. Clinton's past is clouded by episodes that cast doubt on his judgment. Thus, his 43% plurality looks less like a referendum on Clinton's sterling character than a repudiation of George Bush. What's more, in a time of growing disillusionment with established politics and the rise of "third force" movements such as the one led by Ross Perot, politicians who cast aside commitments risk a profound loss of support.

As Bush learned with his no-tax vow, voters consider campaigns a time when a bond is forged between their dreams and a candidate's ambition. Since Democrats are uniquely suspect on the tax issue, any Clinton lurch to higher taxes bears a special risk of looking like betrayal. "There was just too much campaign dialogue on the economy for him to say, 'I changed my mind' on taxes," says political analyst Kevin Phillips. "Clinton can get away with deferring a middle-class tax cut. But if he raises tax burdens on these same people with a consumption tax, or a tax on health benefits, he will breach an implied contract." Bush tried that and got fired.

The lesson for the new President is clear. If he wants to shed the chrysalis of pump primer and emerge a deficit cutter, new taxes aren't the answer. Instead, he can try to stem the red ink the old-fashioned way, by cutting spending. Then, and only then, can a broad-based consumption tax be broached—perhaps as a second-term initiative. That's not as glamorous as Clinton's New Age policy prescriptions. But it's more likely to give his Presidency a fighting chance of success.

Walczak covered the Clinton campaign.

ZOE BAIRD S NOT ALONE

iring household help: True confessions from the home front

uring her confirmation hearing on an. 19, Attorney General-designate oë Baird apologized for hiring two legal aliens and for not paying Social Security taxes on their wages. oth actions violated immigration nd tax laws.

Many U. S. families can't afford uch a predicament. But the Internal evenue Service reckons that of the approximately 2 million households that mploy domestic workers, 1.5 million ay off the books, use illegal nmigrants, or both. BUSINESS EEK *surveyed parents around e country and confirmed that e likes of Mr. French, the butr-cum-nanny of the '60s sitom* Family Affair, *have nearly one the way of the dinosaur.*

Aaron Temin and his wife, Amy Abel, of Reston, Va., ave signed up for their third au air for 2-year-old Liya. "We ran rough the costs and the aggraation of the standard alternaves: Somebody stays home, randma moves in, you find a ay-care center. We like having meone else in the house," Teain says.

All have been French speakrs, obtained through the rattleboro (Vt.) Experiment in nternational Living, which harges $3,000 to cover the au airs' airfare and health insurnce. The au pairs are paid $100 week; each stays a year. "We stimate it costs $12,000 to 15,000 a year, when you include e utilities, extra food, etc.," he says. But it's much more expensive if you re a native-born worker, or a real, cerfied nanny.

"We'd be in bad shape if we hired an legal. I'm a technical director at a comuter firm that does work for the Dense Dept. And my wife works for the overnment as an analyst at the Conressional Research Service. It wouldn't ave us a whole lot of money, and it ould cause us a whole lot of hassle. hat's why I think Zoë Baird was just upid. What people do in their personal fe doesn't necessarily affect their conuct in professional life. But we can aford to work within the laws that protect s. She certainly could have, too."

A Chicago North Shore woman hired Graciella, an El Salvadoran, as a cleaning lady about seven years ago. "I just assumed she was illegal. They are willing to do work that nobody else is willing to do and at decent wages."

Graciella received $50 for about five hours a week. Did her employer pay Social Security? "Oh, sure I did! Just like I reported all my tips when I was a waitress."

WHERE ARE YOU, MR. FRENCH?
Presumably, *Family Affair*'s butler had a green card. Families such as the Goldens (with au pair Habba) often aren't so lucky

A commercial real estate broker in Manhattan has employed a Philippine woman since her 4-year-old daughter was born. The nanny, a former schoolteacher in the U. S. on an expired tourist visa, is paid $275 weekly for living in five days a week. "The fact that she was illegal was never a consideration," says the mother. "What matters is that my daughter loves her and she's responsible—she has not missed a day of work in four years." Such conscientiousness, she feels, is lacking in native-born workers. "I believe in giving Americans a chance, and many are out of work now. But they think being a nanny is below them. I couldn't find an American without an attitude if I tried."

For months, Lori and John Golden of Potomac, Md., searched for live-in help to care for daughter Rebecca, now nine months. "We contacted a lot of organizations, especially religious ones," says Lori, national advertising-sales manager for the Townsend Group, a publishing consultant. "One gave us the name of a 21-year-old Soviet Jewish emigré, Jina. She was here legally, applying for political asylum. She sounded too good to be true: She had been a medical student. She spoke five languages. She was totally charming and charismatic.

"But she turned out to be a disaster. She was supposed to do housework but couldn't even boil water. She chattered endlessly on the phone, even when the baby was crying. After three weeks, she took a phone call—in Russian—and said she had to leave for an immigration hearing in one hour. We haven't seen her since." Golden adds: "She left us with a $350 phone bill. She stole medical textbooks, shampoo, soap. After that, I vowed we'd only work through accredited organizations." With Habba, a new Icelandic au pair, "we play by the rules."

Catherine, who lives in New Jersey and is a Nynex Corp. vice-president, has been hiring illegal aliens as nanny/housekeepers for the past five years. She wanted to avoid agencies because "their fees were very high, $1,000 to $2,000, and there were no guarantees that they would replace someone who didn't work out."

But her own efforts brought trouble, too. A newspaper ad led her to a Jamai-

(L TO R) PHOTOGRAPHS BY [illegible] TIM [illegible]

can woman for $125 a week, plus room and board. She stayed a few weeks, then left for Christmas and never returned. Next, Cathy hired another illegal alien from Jamaica, who had a Social Security card because she had worked at a burger joint. Although Cathy and her husband consulted an immigration lawyer and offered to sponsor her, she, too, packed up one weekend for good.

After raising the weekly salary to $150, Catherine hired a series of women from Poland, all of whom eventually returned as their visas expired. Catherine pays her employees in cash on Fridays and doesn't withhold Social Security. "An attorney told me I should be paying minimum wage, even though I provide room and board," she says. "But I couldn't afford to go to $200 a week. However, I don't take the child-care deduction on my income tax, either."

New York City journalist Robin Kamen made it a point to hire a legal alien as babysitter for her child. It wasn't easy, "especially in New York, where the work force for this kind of labor is 99% illegal. The agencies are supposed to send someone who's legal, but even they don't." Of 40 responses to an ad placed in an Indian newspaper, only one applicant, a woman from Guyana, had her green card. She gets paid $240 for a four-day week, out of which she takes home $200. "I'm probably one of the very few people who do pay on the books," says Robin. "It's an incredible hassle. It took forever just to get the right forms from Social Security."

The immigration laws, she says, need to evolve to keep up with society's needs. She thinks there should be more temporary visas issued and "sponsorships that made it legal for foreigners to work while waiting for the green card."

Irwin Lublin can identify with Zoë Baird. In the '70s, the Los Angeles psychologist had a live-in Mexican maid, who cared for his youngest child. The family suspected she was an illegal; certainly, he says, she didn't pay taxes. Lublin did, claiming her compensation and room and board—$100 a week—as part of his child-and-dependent-care tax credit. In an audit, the IRS claimed he owed Social Security payments on the maid's wages and attached his bank account.

To Lublin, it still seems a conundrum: Why pay Social Security for someone who doesn't have a Social Security number? The money can't accrue toward her retirement; it just goes into the general coffers. "It's probably unconstitutional," he fumes, "but it's legal."

By Troy Segal in New York, with Judy Temes in Boston and bureau reports

RESEARCH

HOW MANY TIMES MUST A PATIENT PAY?

Critics say prices of drugs developed with taxpayer funds are too high

THE NIH'S CHABNER: "WHAT'S AT STAKE IS PATIENTS' ACCESS TO NEW DRUGS"

Over the past 15 years, the National Institutes of Health has spent some $30 million developing Taxol, a promising anticancer drug. To rush it to market, the U. S. handed extensive data and exclusive commercial rights to Bristol-Myers Squibb Co. in 1991. And last December, the Food & Drug Administration approved Taxol for use against ovarian cancer.

A model for the new Clinton Administration's passion for moving technology from government labs to commercial use? Not quite, charge consumer advocates and some members of Congress. The fly in the ointment, they say, is Bristol-Myers' price—up to $6,000 for a four-month course of chemotherapy. "Cancer patients already have financed the invention of Taxol once as taxpayers," fumes James P. Love, director of the Ralph Nader-founded Taxpayer Assets Project. "Why should they be forced to pay Bristol-Myers a second time as consumers?"

Bristol-Myers executives insist that the Taxol price is fair. But Congress wants a more detailed answer. Representative Ron Wyden (D-Ore.) has scheduled hearings for Jan. 25. And Senator David H. Pryor (D-Ark.), who has already proposed to cap drug prices, will follow suit in February.

The hearings may show that Taxol's price isn't really out of line, House staffers acknowledge. But the issue raised by its development is huge. Washington, ex perts say, must find a better way t privatize government-funded innovation —especially since up to half of the mos promising AIDS and cancer drugs ar concocted in government or universit labs, says Dr. Bruce A. Chabner, direc tor of cancer treatment at the NIH "We're not against technology trans fer," explains Wyden. "But fair and rea sonable pricing of products is a tremer dous piece of the health-reform puzzle.

'VERY MUDDLED.' The dispute poses thorny public-policy dilemma. "What's a stake is patients' access to new drug and the whole process of technolog transfer," says Chabner, who oversa Taxol development. If prices are to high, taxpayers shoulder a double bur den, and health-care costs soar. Critic point to Genzyme Corp.'s Ceredase, drug for victims of a rare metabolic dis order known as Gaucher disease. A though it was first developed by NIH Genzyme is selling it for more tha $200,000 annually per patient, estimate the congressional Office of Technolog Assessment. Genzyme officials, who dis pute OTA's assumptions about dosages say the actual cost is under $60,000 year. Even that "is outrageous," charges Abby Myers, head of the Na tional Organization for Rare Disorders

Yet prices set too low might scar companies out of government collabora tion. Both Bristol-Myers and Genzym

ay their development and ıanufacturing costs justify ıe prices for Taxol and Cere-ase. And Chabner reports hat several companies have acked away from agree-ıents to produce taxpayer-eveloped AIDS and cancer rugs because of fears of ricing disputes.

So are companies taking ad-antage of government re-earch and development? Or ; Washington already asking ɔo much? "It is a very mud-led picture," says Viren Mehta of Iehta & Isaly, a New York consulting nd stock-research company. "It is very asy to get carried away on one side or he other by selective use of the data." 3ut the pharmaceutical industry is al-eady in Congress' bad graces over prices charged to medicare and medicaid patients, and lawmakers are making se-rious noises about taking action.

Some in Congress are considering charging companies for taxpayer-funded research. Another option, says Dr. Alan J. Garber, professor of medicine and eco-nomics at Stanford University, is to negotiate a price based on a company's actual costs of R&D and production. That would require number-crunchers at NIH or some new government body to peer into company books. The pharma-ceutical industry loathes that idea. If it is implemented, in-dustry officials say they will simply stop working with the government on new drugs.

The issue promises to gen-erate lots of heat over the coming months. Unless Congress and the NIH figure out a way to walk the narrow path of persuading the drug in-dustry to develop their lifesavers with-out gouging the public, taxpayers will pay the price in dollars or disease.

By John Carey in Washington

DRUGS OF CONTROVERSY

Substances developed in part by government-funded R&D and sold at high prices by drug companies

Drug	Disease	Company	Cost
AZT	AIDS	Burroughs Wellcome	Originally $8,200 a year, now $2,200
CEREDASE	Gaucher disease	Genzyme	Up to $60,000
TAXOL	Cancer	Bristol-Myers	Up to $6,000 per course of treatment
DDI	AIDS	Bristol-Myers	Up to $1,745 yearly

DATA: BUSINESS WEEK

TRATEGIES

SO MUCH FOR DIVERSIFICATION

Xerox is axing financial services nd refocusing on office products

In the early 1980s, Xerox Corp. eager-ly diversified into financial services. The aim: to shore up the flagging ore of its business, copiers. On Jan. 18, Xerox pulled an about-face. As many in he industry and on Wall Street had ex-ected, the company announced plans to litch its insurance and investment-bank-ng businesses—and to focus entirely on ts newly resuscitated office-machines perations.

Xerox is betting that its aggressive ntroduction of a slew of new opier products in the past wo years will pay off. 'They've remade the ompany," says Dean Vitter Reynolds Inc. Senior Vice-President Eugene G. Glazer, who estimates Xerox sold 314.65 billion of office equipment in 1992, a 6% ncrease from 1991. Meanwhile, the finan-cial-services operations ıave faltered. In the nid-1980s, the financial arm contributed almost ıalf of the corporation's profits. Last year, it was a paltry 4% (charts), and inves-tor concerns over the business clouded the turnaround in of-fice machines.

To rebuild its document-processing business, Xerox has introduced high-speed color copiers and printers de-signed to replace traditional offset print-ing units and to automate corporate print shops. At the low end, it has an array of new plain-paper faxes and desk-top copiers. "They've introduced more significant new products in 18 months than the rest of the industry combined," says Prudential Securities Inc. analyst B. Alex Henderson.

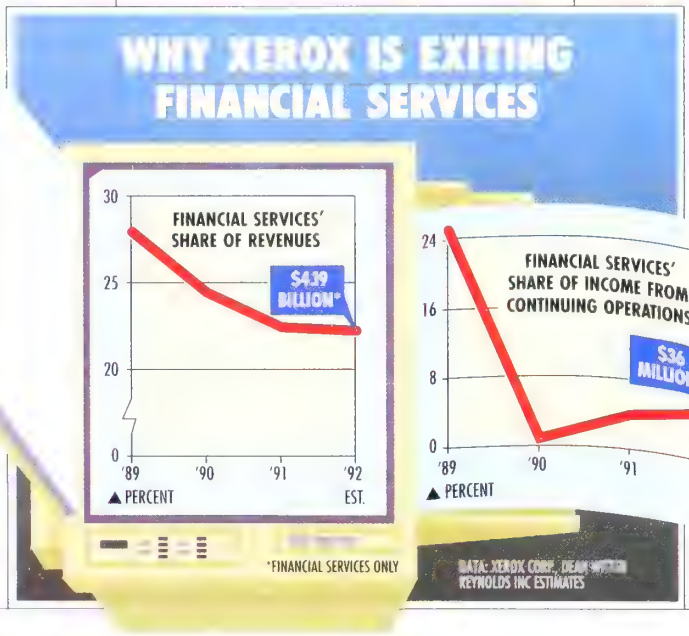
Yet the company faces a rocky road this year as recession grips international markets—which now account for 55% of its document-processing business. While sales of its color copiers and digital printers were up 7% in the U. S. in the first nine months of 1992, overseas sales have slowed to a crawl. A strengthening dollar compounds the problem of stag-nant economies in Europe and Japan. "We've got a very strong product array, but you're playing that against a weaker economic environment," says Xerox Ex-ecutive Vice-President Wayland R. Hicks.

To accomplish its corporate makeover, Xerox will take an aftertax charge of $778 million, which should largely wipe out its 1992 earnings. And the company says it may need to tap the equity mar-kets for an additional $500 million this year, thereby diluting the holdings of its existing shareholders.

DIFFICULT SELL. Xerox won't unload the financial operations just like that. While it says it has received inquiries for its life insurer and is in discussions to sell to employees its investment-banking house, Furman Selz Inc., the sale of property-casualty insurer Crum & For-ster Inc. will prove difficult. Many other underwriters are shedding property-ca-sualty units amid a lengthy downturn in industry profits. And other nonfinancial companies, such as Westinghouse Elec-tric Corp. and Sears, Roebuck & Co., are not likely to be buying, hav-ing decided to curb their expo-sure in financial services. More than a third of the $778 million restructuring charge is going to bolster Crum & Forster's reserves—a sign of how troubled the unit is. Xerox says that it plans to sell Crum & Forster in bits and pieces in hopes of getting maxi-mum value.

The exit from finan-cial services, admittedly painful, should leave Xerox in fighting shape to combat its Japanese and domestic rivals. All the company needs now is some help on the global economic front.

By Tim Smart in New Haven



ROB DOYLE BW

MARKETING

WIPING THE MESS FROM GERBER'S CHIN

After big market miscues, the baby-food giant tries to clean up its act

Gerber knows what it's good at: dishing up strained peas, pureed peaches, and—*mmmmm, open wide, precious, here it comes*—stewed prunes. The No. 1 baby-food maker has in recent years sharpened its focus on its core business while shedding other operations, including trucking and furniture. The result: a share of the $1.1 billion baby-food market that last summer topped 72%. That's more than American Telephone & Telegraph Co.'s share of the long-distance market.

But not even companies that command that much of their market get their way all the time. When Gerber Products Co. announced a 5.5% price hike in September, competitors not only failed to follow suit, they began heavily discounting. In some areas, the difference between Gerber and Beech-Nut was as much as 28¢ a jar. Gerber's December baby-food orders plunged 16%—and market share tumbled two points. "The quarter really went to hell in a hand basket," sighs Chief Executive Alfred A. Piergallini. Then, on Jan. 14, the company announced that James T. Smith, 45, was resigning "to pursue other interests," after just six months as president.

'GRAND CANYON.' Coincidence? Piergallini says that no one individual was to blame for the company's failure to react to rivals' discounting. Adds outside director Charles H. Curry: "I don't think you can fault management for the lack of response in pricing." But Wall Street suspects that there's more to Smith's departure than a desire to try his hand at some other line of work. "He clearly did some things wrong," says John McMillin, a food-company analyst at Prudential Securities Inc. Smith did not respond to repeated BUSINESS WEEK requests for an interview.

Reinforcing the Street's speculation is that such a disastrous misreading of the market is out of character for both Smith and Piergallini. Smith, after all, was a 20-year veteran of Procter & Gamble Co., with sterling international experience before he arrived to head Gerber's baby-food unit in January, 1990. "Smith is a very solid marketing guy," says Curry.

Piergallini says Gerber's problems were a fluke. "We hit a rut that turned out to be the Grand Canyon," he explains. Recent actions by rivals have given Gerber a chance to climb out of the hole it's in. H. J. Heinz Co. raised its prices 5% in November, and Beech-Nut Nutrition Corp. plans a similar increase.

Those moves, though, may have troublesome consequences of their own. At least six groups of grocery wholesalers and supermarket chains have sued Gerber, Heinz, and Ralston Purina, Beech-Nut's parent company, on antitrust grounds. The suits, all filed in January in U. S. District Court in Newark, N. J., accuse the companies of conspiring to fix baby-food prices since the mid-1970s. All three companies say they'll contest the charges.

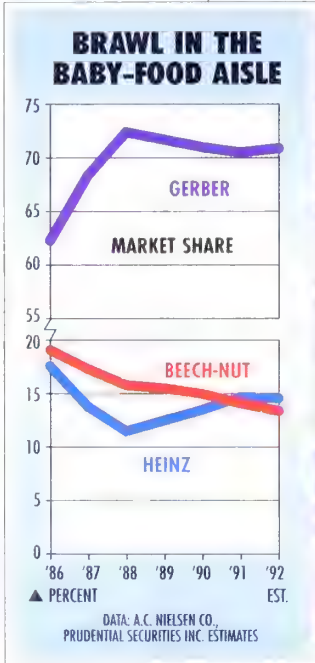
Of more immediate concern to Gerber is the task of getting back into Wall Street's good graces. After making rosy forecasts in August, Gerber scaled back predictions in October. Then it jolted analysts in mid-December by revising projected earnings downward to $1.80 to $1.90 a share before any yearend charges, from $2.05 to $2.10, for the year ending Mar. 31, 1993. That means Gerber's results will be basically unchanged from fiscal 1992's $1.3 billion in sales and $150 million in earnings after taxes and before restructuring charges. And fiscal 1994 should be little better, analysts say, in part because Gerber will have to absorb large international-expansion costs.

FULL PLATE. That was the essence of the bad news Piergallini offered investors and analysts in New York before Christmas. He also hinted that management changes would be made, according to McMillin. Although analysts made little of it at the time, they now recall that Smith didn't accompany Piergallini, who says he went alone because he thought he should take the heat.

Piergallini will have to get used to flying solo: He says he has no plans to replace Smith. That leaves Piergallini charged with getting the baby-food business under control, directing Gerber's international expansion, and selling its Buster Brown clothing unit.

That will keep him plenty busy. And Piergallini vows Gerber will have quicker reflexes the next time the market swings. How he will ensure that is unclear, though, since the CEO won't say why Gerber took its eye off the ball in late 1992, or what—other than Smith's departure—has changed since then.

By Greg Bowens in Detroit



INFORMED CONSUMER: IN SOME AREAS, BEECH-NUT WAS 28¢ A JAR LESS THAN GERBER

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CONSULTING

OH, WHAT A LOVELY WAR GAME

Booz Allen's military simulation is a corporate hit in peacetime

If Napoleon were alive today, he wouldn't waste his time invading Russia. More likely he would be raking in the big francs lecturing executives on how to rout their enemies in, say, the cognac market. Judging from the avid following that Clausewitz, Sun Tzu, and Attila the Hun still command, executives feel they have plenty to learn from military thinkers. The parallels are obvious. After all, business is hell, too.

So it's no surprise that Booz Allen & Hamilton Inc., the international consulting firm, is enjoying success with a civilian version of the war games it has helped the Pentagon play for more than a decade. It's the latest wrinkle in defense conversion: Instead of pushing toy tanks and battleships around on a big map, Booz Allen's "competitive simulation" clients announce takeovers, introduce products, and file patent-infringement lawsuits, testing real-world strategies without risking real-world money. Among the companies that have undergone the exercises since 1987 are General Electric, AlliedSignal, General Dynamics, Caterpillar, FMC, and Chevron.

Instead of cooperating, as in conventional strategy-setting sessions, executives in war games divide into teams representing each major player in their industry. They're prepped with dossiers on the companies they're portraying. (Assembling the files is an important side benefit.) Then, after each team lays out its plan, a group of executives who represent the market decides how much to buy from each. Games typically last three rounds, one a day.

UNEXPECTED. It gets rough out there. Rival teams aim to ridicule and demolish the home squad—a job that's made easier because they know its secret weaknesses. At Chevron Corp., some "enemies" took on their roles so thoroughly that "they almost had a little bit of trouble getting back into Chevron," says Lloyd E. Elkins, president of Chevron Services Co.

Out of that heated competition arise unexpected and sometimes unnerving outcomes. For example, the Caterpillar Inc. division that makes engines for heavy trucks had always believed that none of its engine-making competitors would dare buy a truck manufacturer, figuring that all rival truckmakers would spurn that company's engines from then on. But in the game, one engine producer did buy a truckmaker—and didn't lose a dollar's worth of engine business from other truckmakers.

Of course, there's no guarantee that game scenarios will play out in real life. But they might. "The game keeps you from making [self-serving] assumptions about what your competition is going to do," says Tom Rabaut, general manager of FMC Corp.'s Defense Systems Group. Underestimating the enemy "is unconscious," Rabaut says, "but we all do it."

GE Plastics used the Booz Allen game to build the skills of its salespeople, hoping to persuade them to listen to the customer. A simple idea, but one that hit home when they witnessed firsthand the failure of teams that used high-pressure sales tactics. According to Booz Allen one salesman who finished the game stood up and said: "Now I understand what you've been trying to tell me all these years." Nigel D. T. Andrews, general manager of GE Plastics Americas says the game easily paid for itself in increased sales in the first year. "The most consistent message was not to presume you know the answer to a customer's need too quickly," he says.

BLINDSIDED. Booz Allen hardly has the gaming field to itself. But most games such as those from business schools, are more generic and aimed at building general executive skills. Other games are customized for particular clients, but the home teams may play against computers rather than other people. Such games are limited by the imagination of the software developers. Monitor Co., a consultancy based in Cambridge, Mass. runs games that resemble Booz Allen's but without a team to represent the market.

It's the market team that's really put through the wringer in Booz Allen's games, working up to 19 hours a day to represent every customer segment. Booz Allen has two people working on games full-time and perhaps a dozen others who help when the shooting breaks out. To date, it has run nine games, at prices of $250,000 and up. It's booked for three so far in 1993.

Is business war? More or less, says George E. Thibault, who runs the Booz Allen practice as head of the Strategy Analysis Center in McLean, Va. Thibault is a 30-year Navy veteran who worked in the Central Intelligence Agency and headed the National War College's military strategy department. He says that in business, as in the military, the hardest thing to avoid is a surprise. Thibault likes to quote University of Maryland economist Thomas C. Schelling, who says that traditional strategic analysis falls short because "you can't make a list of things you never thought of."

Things you never thought of are exactly what tend to emerge in war gaming. Tapping into that flow of ideas is the main reason business executives from some big companies have been trying out the latest military technology to be converted to civilian use.

By Peter Coy in New York

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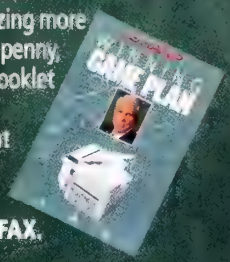

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EDITED BY HARRIS COLLINGWOOD

FRIENDS OF BILL

Hundreds of companies are making nice to the new gang in Washington. Many are lending the Clinton Inaugural Committee up to $100,000. But an imaginative few are doing their favor-currying with real panache. A sampling:

COMPANY	FAVOR
AT&T	$100,000 loan, $50,000 subsidy, fax machines and telephone gear
MOTOROLA	Loan of 500 pagers, 200 cellular phones, and 300 walkie-talkies worth a total of $1.5 million
DELTA	$200,000 in free airline tickets
ANHEUSER-BUSCH	Provided eight Clydesdales for the inaugural parade
BOSTON BEER	Donated 300 cases of Samuel Adams beer, worth $5,000

DATA BUSINESS WEEK

AS BEATRICE PONDERS LIFE MINUS LEWIS . . .

▸ The sudden death of Reginald Lewis, the 50-year-old chairman and CEO of TLC Beatrice International, casts doubt on the future of his company. In 1987, Lewis thrust himself into Wall Street's uppermost ranks when he bought Beatrice International, a multinational food company, for $985 million. Today, Beatrice, which operates in 19 European countries, has sales of $1.5 billion.

FUGETT OF TLC BEATRICE

But, says a former TLC executive, "it will be hard for anyone to fill Lewis' shoes." Jean Fugett, Lewis' half-brother, will head the management committee Lewis named to succeed him. Yet some former executives speculate that the company may be broken up or sold. Unilever and Nestlé, both itching to acquire more European food operations, are among the likely bidders.

. . . ILLNESS STRIKES TENNECO'S CEO

▸ Tenneco CEO Michael Walsh revealed on Jan. 20 that he has been diagnosed with a brain tumor. Walsh, 50, has headed a radical overhaul of Tenneco since arriving 18 months ago. He plans to continue working as he undergoes radiation and chemotherapy. "My mental processes and judgment are unaffected," he says.

The median survival rate for patients with Walsh's condition is about five to six years. He says he announced his diagnosis to head off speculation "that could potentially put investors at risk."

FOR SCHWINN, FEWER BUMPS AHEAD

▸ After nearly a century of family control, Schwinn Bicycle has a new owner. On Jan. 19, the newly formed Scott Sports, a joint venture of Scott USA, a Ketchum (Idaho) bicycle company, and an investment partnership headed by real estate mogul Sam Zell and David Schulte, won bankruptcy-court approval to buy most of the company's assets for $41 million. Schwinn, which ran into financial and marketing troubles in recent years, will keep its dealer network and its brand name, one of the best known in the world.

OR YOU COULD JUST SNIFF THE ASHTRAY

Driving and aromatherapy, perfect together. Or so says Jerry Smith, marketing director of Gold Eagle of Chicago. Gold Eagle has created Visor Clip, a line of New Age automotive air fresheners that promise to do more than mask the stink of your car ashtray. The wood-scented Visor Clip, says Smith, relaxes cranky drivers, while a lemon and orange mix revives tired ones. The floral scent is for motorists in a romantic moo

Judging by the reports of three BUSINESS WEEK staffers Gold Eagle has some tinkering to do. The cranky one tried th wood scent and got mad. The tired driver tried the citrus mi and stayed tired. The romantic got a floral-scented headache Their common complaint: The aromas were too strong. Smit says that the batch headed for gas stations nationwide i March will be lighter on the nostrils. How does he know the work? Like anything New Age, "I take it on faith," he says

FALL FROM GRACE AT CITIBANK INDIA

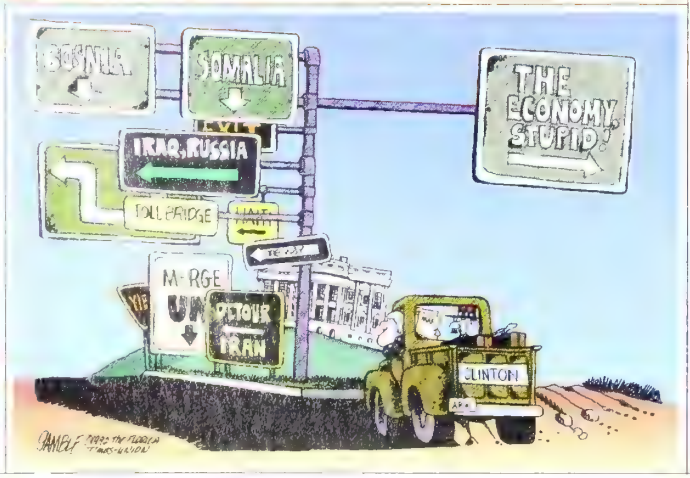
▸ Four top officials of scandal-plagued Citibank India have resigned. Bank insiders say the final push out the door came when officials of the U. S. Federal Reserve visited Bombay in mid-January to investigate the involvement of U. S. banks in a scandal that led to the crash of th Bombay stock market las April. The top Citi executiv to step down was the bank' former chief of corporat banking in India, A. S Thiyagarajan.

The other high-profile U. S bank operating in India, Ban of America, has lost its flam boyant country manager, Vik ram Talwar. Fallout from th scandal has also forced BofA to postpone its plans to ge into retail banking through out India.

UNITED'S UNIONS AREN'T UNITED

▸ United Airlines and it unions are butting head again. United has asked th unions to accept a one-year 5% wage cut and a two-yea moratorium on wage and ex pense increases. The pilots union responded by asking i return for the right to inspec United's books. And the ma chinists and flight attendant simply refused the airline' request.

What's next? Sources clos to the airline say that, with out the union concessions United will probably trim management ranks and cu back its domestic and interna tional route system.



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EDITED BY STEPHEN H. WILDSTROM

CLINTON'S HOUSEWARMING GIFT: FEUDING REPUBLICANS

By now, you would think the shock would have worn off. But some 10 weeks after losing the Presidency, the Republicans are stumbling around like a party that still doesn't know what hit it. Moderates are feuding with the religious right. The congressional leadership is befuddled. And some of Bill Clinton's nominees, who might have faced tough ethics scrutiny, are waltzing to confirmation.

The party that ran the White House for 20 of the last 24 years seems paralyzed. "There's nothing like a defeat to vaporize morale and discipline," says Republican consultant Jay Severin III. "I expect that we will see a lot of blood on the floor before this is over."

All the party's fissures will be on display in St. Louis from Jan. 28-30 when the Republican National Committee meets to select a new chairman. After four years of waffling Bushism, the faithful want to return to the party's conservative roots. But no one knows how to bridge the gap between economic conservatives, who want to deemphasize social issues, and Christian conservatives.

CULTURAL WARFARE? The early front-runner for the chairmanship is former Missouri Governor John Ashcroft. A staunch abortion foe who delivered a blistering attack on homosexuals at the Houston convention in August, Ashcroft is backed strongly by the religious right. His election would commit the RNC to cultural warfare against "liberal elites."

Ashcroft's major competition comes from two veteran operatives who want to rebuild the party from the grass roots: National Republican Congressional Committee (NRCC) Co-chairman E. Spencer Abraham of Michigan and RNC member Haley Barbour of Mississippi. While both are conservatives, only one is likely to mount a serious challenge. But either would push the GOP to broaden its base and recapture disaffected women and suburbanites. "We are a diverse party," says Barbour. "We need to emphasize the principles that unite us."

ASHCROFT: ITCHING TO BASH LIBERALS

On Capitol Hill, Republicans are having just as hard a time organizing themselves. There's a fundamental dispute over strategy. Should Republicans cooperate with the White House to shape moderate programs on taxes, spending, and health care? Or should they put all their energies into frustrating Clinton's initiatives and risk alienating the public?

The hesitancy was on view at confirmation hearings for Clinton appointments. Although Senate Minority Leader Bob Dole (R-Kan.) promised to rough up the nominees, Republicans were downright deferential. While liberal Democrats gave Attorney General-designate Zoë Baird a hard time over her hiring of illegal aliens (page 29), Senator Orin Hatch (R-Utah) declared "this episode should not disqualify a well-qualified individual." And Commerce Secretary-designate Ronald H. Brown received only gentle queries about his ties to corporations and foreign governments.

House Republicans, by contrast, are girding for battle. The tone was set on the first day of the session when the Democratic majority adopted rules that further weaken the minority. Vowing revenge, the House GOP promises procedural guerrilla warfare that could tie up the House in roll calls. Democratic tactics "brought us together as never before," says Representative Bill Paxon (R-N.Y.), the new chairman of the NRCC.

In 1981, Ronald Reagan took advantage of divided and demoralized Democrats to ram his revolutionary tax and budget plans through Congress. Clinton has a similar opportunity. But he's far behind schedule in drawing up his 100-days blueprint. Unless the Clintonites get their act together soon, a once-in-a-Presidency opportunity could slip away.

By Richard S. Dunham

CAPITAL WRAPUP

REGULATORS

The leading candidate to head Bill Clinton's Federal Communications Commission may have some explaining to do. At issue is the role of Antoinette D. Cook, 35, and her stepfather, Clinton transition chairman Vernon Jordan, in a challenge to sale of two Washington (D.C.) radio stations in 1988. Both received hefty payments as investors in companies that bid unsuccessfully for WGMS-AM and -FM. Cook, who has since become senior counsel of the Senate Commerce Committee, at the time was general partner and 26.5% owner of Riggs Radiocasters Inc. She got $500,000 as her share of the $10.4 million that seller RKO General Inc. paid to eight losing bidders when it sold the properties to Classical Acquisitions Inc. for $33.9 million. Jordan was chairman and 12% owner of Vernell Broadcasting Inc., which got $765,000.

Although that was legal, the FCC has since ruled that unsuccessful license challengers may only receive reimbursement for legal fees and other direct costs as part of any settlement. Commissioners were concerned that groups were bringing frivolous challenges in hopes of being paid to go away. Cook insists that she had every intention of operating the station had the Riggs Radiocasters won.

GADFLY

Ross Perot keeps thinking of ways to raise his profile. The Dallas billionaire plans to stay in the new President's face with a series of five broadcast appearances in the week following Clinton's inauguration. Perot is certain to keep up his demands for tough deficit reduction and strict ethics rules. Keeping his promise to continue his popular electronic town meetings, Perot scheduled a Jan. 22 "Ask Ross" session on Dallas radio and TV. He'll also make national appearances on *Good Morning America*, *The Joan Rivers Show*, C-SPAN, and his favorite, *Larry King Live!*

SALINAS FACES HIS TOUGHEST YEAR YET

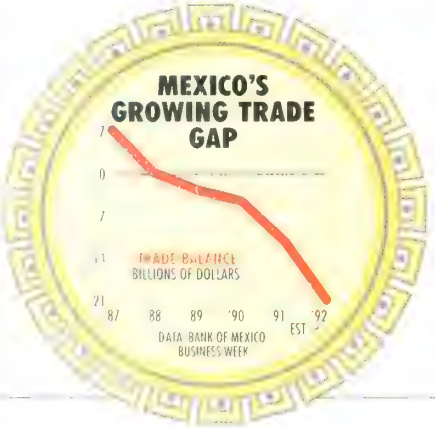
A huge trade deficit, slowing economic growth, and doubts about the free-trade pact plague Mexico

It's another hot day in the Yucatán, but President Carlos Salinas de Gortari looks crisp and energetic as he hands out land titles to peasants and dedicates a new recreation center. Then, Mexico's leader jets off to a gathering of small farmers and listens to worries over jalapeño prices. He doesn't let the chance go by, though, to urge farmers to experiment with other crops rather than expect government handouts. When meeting with a group of well-heeled tourism developers in Cancún, Salinas gently turns down a chorus of requests for financial relief and a devaluation of the peso. "Help us in this new way of doing things to build a new Mexico," he urges.

Two-thirds through his six-year term, Salinas is still campaigning for Mexico's economic revolution. In four years, he has privatized nearly 1,000 state-owned companies, filling state coffers with the proceeds. He has slashed inflation and masterminded a government-labor-industry pact, which is boosting productivity in many industries. Flight capital has come pouring back in.

But 1993 promises to be Salinas' toughest year yet. Approval of the North American Free Trade Agreement (NAFTA), vital for continued foreign investment, faces opposition in a skeptical U.S. Congress. A surge in imports to Mexico created a $21 billion trade deficit last year, sparking calls for a peso devaluation. And economic growth slowed to 2.8% in 1992, choking local industry. The 44-year-old President also faces a political test: He will have to choose a successor amid cries for more democracy from Mexicans and critics in the U.S.

CONSUMER IMPORTS HAVE RISEN 1,000%



Of greatest concern to Salinas now is NAFTA. President Clinton, who met with Salinas two weeks before his inauguration, reassured his counterpart that he wouldn't reopen the pact for further negotiation. But he is expected to push for side agreements that penalize Mexico if it doesn't enforce environmental and labor regulations. Even if that goes smoothly, no fewer than 18 committees of Congress will debate the treaty before it is finally ratified. Says Senator Bill Bradley (D-N.J.): "NAFTA is the most important foreign-policy decision that Clinton will make in his first six months in office."

CHEEZ WHIZ. If NAFTA is beclamed or blown off course, the $15 billion to $20 billion in new investment that Mexico needs annually to keep on modernizing could be threatened. Anticipating a long debate on free trade in Washington, Salinas is staving off calls for a peso devaluation that could spook foreign investors and tarnish the country's image as a stable trading partner. In November, under pressure from speculators, officials increased the amount by which the peso can fall each day. But economists and industrialists are calling for a more substantive devaluation, as much as 10%. By yearend, if investment slows, there may be little choice.

Just as troubling is the trade gap, which soared in 1992 after Salinas threw open the economy's doors (chart). He sees it as a sign of health, signaling the private sector's hunger to invest. "It comes from the pull that private investment is generating," says Salinas. But economist Rogélio Ramírez de la O warns that imports of consumer items

e up 1,000% from five years ago, while pital-goods imports are growing more owly. Walk down a wide aisle at Club urrera, a Mexico City store partly vned by U.S.-based Sam's Club, and ou will see shoppers piling carts high ith Cheez Whiz, California-frozen ta-s, and Twinkies. Says de la O: "I shud-er to think how our trade deficit will alloon when our economy picks up gain."

What's coming next is another jolt of structuring, as Mexican companies ruggle to reshape themselves for a orth American market. Up to 10% of e country's bank employees will lose eir jobs as 18 newly privatized banks ruggle to modernize. Even Petróleos exicanos (Pémex), the government's oil ehemoth, is slimming down. It has anded pink slips to 85,000 workers in e past two years, and more could ome. In such hard-hit industries as tex-les and toys, companies are shedding orkers and even closing their doors.

EW CRUMBS.' Mindful of the pain his upply-side policies have inflicted, Sali-as has tried to counter with his "Soli-arity" program. This year, he will chan-el $2.5 billion in government funds into ublic-works projects. But critics say the rogram's aims are as much political as ocial. Charges Lorenzo Meyer, a politi-al scientist at Colegio de México: "The overnment uses Solidarity to toss a few umbs to the poor, to win their hearts, inds, and votes in the next election."

Indeed, Salinas knows that for his par-to win decisively in 1994, a majority of lexicans must feel they have benefited om his radical program. While manu-acturing wages have risen, the big win-ers have been the wealthiest 10% of ociety, who can afford to buy imported oods or snap up stock in the hugely rofitable, privatized companies. That's hy, as he seeks a successor, he will be oking for a skilled politician as well as n economic manager. "You cannot be resident of Mexico without political kills," says Salinas. Finance Secretary edro Aspe Armella is considered a ront-runner. But some analysts believe at if austerity becomes a political alba-ross, he could be cast aside for a candi-ate with more populist appeal, includ-g Mexico City Mayor Manuel Camacho olis or Social Development Secretary uis Donaldo Colosio.

Still, Salinas insists Mexico is moving the right direction. He believes NAFTA ill boost confidence, stimulate invest-ent, and lock reforms into place. "Our ndamental task now is to consolidate ese reforms," Salinas told BUSINESS EEK. What's most important to him, he ays, is to leave a lasting legacy of sta-ility. In that way, Mexico can take its lace in the new continental arena.

By Geri Smith in Chetumal, Mexico

SALINAS: 'MEXICANS WILL KNOW... WHAT IT MEANS TO LIVE IN STABILITY'

Flying over the Yucatan peninsula in the presidential plane, Mexican President Carlos Salinas de Gortari was on a weekly visit to the provinces. Mexico City Bureau Manager Geri Smith and Senior Editor Frank J. Comes joined him as he talked about the tough year ahead.

ON CLINTON: The fact that President-elect Clinton was willing to meet with a president of Mexico—while traditionally he would always meet with his historical allies in Europe—showed a special sensitivity that I appreciated.

ON NAFTA: We are confident that the agreement as it was signed will be in effect by Jan. 1, 1994. We are willing to talk about issues that make economic sense and do not infringe on our sovereignty. But if we try to put too many things within NAFTA, we can make it very difficult to get [it approved] in each of the three countries.

SALINAS WILL NOT ACCEPT NEW FACTORIES WHOSE TECHNOLOGIES ARE ENVIRONMENTALLY HARMFUL

ON THE ENVIRONMENT: Enforcement is important for us, notwithstanding NAFTA. We are fully committed to enforcing our laws because Mexicans demand it and deserve it. There's a new and very public consciousness in the younger generations about the environment. A new attorney general for the environment has introduced more than 3,000 sanctions in just six months and has shut down almost 700 factories, 40 of them permanently. And we will not accept new factories, even though they may provide jobs, if their technologies are harmful.

ON WAGES: We do not want to go into NAFTA with low wages. If low wages were the fact attracting investment, someone has said that Haiti would be the industrial capital of the world, and this hasn't happened yet. In the four years of my administration, every year real wages have increased in manufacturing and in services. We hope that with NAFTA, productivity will grow even more, and therefore that Mexican workers will earn even more.

ON INFLATION: We must bring inflation down to a one-digit level this year. Some say, why don't you relax your inflation goals a bit so we can have better growth rates? And I respond: There is no trade-off between inflation and growth. We want single-digit inflation because it has been almost a quarter of a century since we last had it. In that time, more than half of Mexico's population has been born. So more than 45 million Mexicans will know for the first time what it means to live in stability.

ON POLITICAL REFORMS: We want to have a system that has professional officials in the electoral bodies and a reliable electoral registry. Independent companies, like McKinsey and Nielsen, have said it is reliable. We want immediate vote results and transparent financing procedures so that each party's expenses can be monitored.

ON ELECTION OBSERVERS: Anyone who wants to come and look at the electoral process can do so, because our constitution guarantees freedom of movement. You can ask and do what you want. We reject the idea that any foreigner can come and decide whether the process is correct.

ON THE TRADE DEFICIT: We have a deficit that is 6% of GDP, and our international reserves continue to grow. Why? Because the deficit is not coming from the pull of a budget deficit. On the contrary, we have a budget surplus. So the current-account deficit comes from the pull that private investment is generating in imports. [But] public finance will be very disciplined. Privatization has stimulated the return of capital. So investment goes on without deficit spending.

ON HIS DRIVE: It's the "Vitamin P" I take every day—the politics vitamin. It's in my blood. It's very stimulating.

JAPAN AIRLINES CINCHES ITS SEAT BELT

The carrier has a new austerity plan, and labor may get squeezed

By U. S. airline restructuring standards, it looks modest. No one gets fired, no major operations are lopped off, no airplanes sold. But the "revised corporate plan" unveiled by Japan Airlines Co. President Matsuo Toshimitsu in mid-January is the boldest change in course since the airline was fully privatized in 1987.

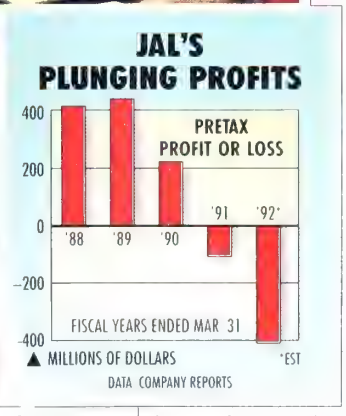
Back then, JAL was rolling in profits. Now, the world's seventh-largest airline is deep in the red, the victim of global economic weakness and its own internal problems. So JAL is digging in and hoping to break even next year. It is slashing costs and planned investments by a total of $1.6 billion during the next 12 months—and cutting intended spending to $8 billion, from $12.8 billion, over five years. It will abandon or reduce operations on money-losing routes. And JAL hopes to rev up sales by such measures as a first-ever frequent-flyer program for local customers. "I don't see how this can fail to return us to our previous strength," says JAL Managing Director Akira Kondo.

Outsiders aren't so sure. As the flag carrier of Japan, JAL is assured of its long-term viability. But it is operating in a climate that will never be as cozy as the one that produced the profits of earlier years. And the new Kansai International Airport, to open in 1994 in Osaka, will clear the way for many more competitors to serve Japan.

'RIDICULOUS.' Already, growing competition in the international arena from Japan's other carrier, the hard-charging All Nippon Airways, and from the likes of United Airlines and Northwest Airlines, has forced JAL into once eschewed heavy discounting. And changes in Japanese spending habits will likely prevent JAL's profitable first-class and business traffic from ever regaining previous levels. "In the past, JAL had a sheltered environment—in essence, a monopoly on the Japanese traveler," says David Sherman, a Hong-Kong based partner at consultant Towers Perrin. "I just don't see that continuing."

But most analysts are encouraged by JAL's resolve to stanch growing losses. From a peak of $438 million in pretax profits in 1989, JAL will lose an estimated $400 million in its current fiscal year (chart). That stems from a massive fall-off in international passengers because of the collapse of Japan's bubble economy, the global economic slowdown, and more competition. JAL's cargo business has tumbled for similar reasons.

LEARNING TO SERVE: AFTER FIVE YEARS ON THE JOB, FLIGHT ATTENDANTS EARN $64,000



Beyond those problems, though, the carrier suffers from a fundamental weakness: its runaway cost structure. United Airlines' cost-per-available-seat-mile is 9.8¢, for example; JAL's is 14¢. Other Asian carriers, such as Cathay Pacific Airways Ltd. and Korean Air, have even steeper cost advantages.

JAL's costly habits date back to another era, when it was a quasi-government airline and able to pamper employees. Consider: The airline still delivers pilots from their homes to Tokyo's distant Narita airport and back by chauffeur-driven cars. It often pays for flight attendants to commute by taxi at a cost of at least $150 per ride. That adds up to millions of dollars annually in charges that competitors don't incur. And JAL flight attendants with five years' service pull down a cool $64,000 a year. "It's a ridiculous situation," says the Tokyo head of a major Pacific airline.

UNION SUITS? JAL seems to agree. The airline plans to boost its number of non-Japanese cabin crew, who receive lower pay. And it has started tough talks with union leaders to win concessions. So far labor has no objections to JAL's planned cutbacks, which include deferring the purchase of jets and delaying construction of hangars and cargo facilities at Kansai. But broach wage cuts, and talk could heat up. Teruhiko Nakanishi, president of JAL's largest union, says: "To save jobs, we're cooperating." But other more militant unions represent the pilots, other cockpit crew, and one-fourth of flight attendants. JAL's Kondo concedes: "Our biggest challenge will be getting the unions to go along."

Despite its travails, JAL is still powerful. Its robust balance sheet, including $2.9 billion in cash, helps make it Standard & Poor's Corp.'s highest-rated airline. "We think JAL still has good financial flexibility," says Thomas G. Schiller, a director at Standard & Poor's Asia. JAL also boasts a modern fleet, a deserved reputation for good service, a friendly regulatory environment, and guaranteed access to low-cost loans from the Export-Import Bank of Japan.

Unlike many other airlines, JAL sees no need to enter into equity tieups, à la KLM's with Northwest and British Airways' planned investment in USAir. "We can be more flexible by not making investment commitments," says JAL Chairman Susumu Yamaji. JAL's only substantial holding in another carrier, 12% in Hawaiian Airlines Inc., has proved disappointing.

Over the next five years, JAL officials hope they can increase ticket sales by an average 5% annually. That's less than the 8% growth they project for overall international traffic during the same period, but it's certainly better than what JAL has had to settle for lately.

By Robert Neff in Tokyo

EDITED BY STANLEY REED

DOES DENG'S ARMY SHAKEUP MEAN REFORM IS A SURER THING?

Purges in China have long been bloody, chaotic affairs that disrupt the economy. But right now, a major shakeup at the highest levels of China's armed forces is taking place so quietly that its dimensions are only just now being understood. It started last fall, when a top military man, General Yang Baibing, 72, called together his cronies to make contingency plans for the post-Deng Xiaoping era.

News of these meetings was all Deng, 88, needed to go on the attack. In October, Yang was stripped of all military posts, although he was "elevated" to the Politburo without any key portfolio. His powerful elder brother, Yang Shangkun, a longtime Deng associate, also gave up his military titles and is expected to retire from a largely ceremonial job as President this spring. And now, Yang supporters throughout the military are being retired, demoted, or shuffled to new posts. "This move," says one defense analyst, "caught everyone outside Deng's office by surprise."

NO OBITS. Western analysts say the eclipse of the Yangs is a good sign. It means there is now no military strongman poised to play the role of kingmaker after Deng dies. While the top brass will weigh in with their preferences, their overwhelming concern will be to preserve order. That could set the stage for a period of stability that would allow China's economy to continue its current boom. "The odds are now increased that the military will stay on the sidelines in the event of a power struggle," says a Western diplomat in Beijing. "This may augur well for reform."

By dumping the Yangs, Deng is showing that he still wields enormous power, despite his physical frailty. Since playing key roles in the 1989 Tiananmen Square crackdown, the Yangs had been busily building their own power base in the military. Although their self-aggrandizement was much resented, many analysts thought they had put enough buddies in key slots to pull strings from behind the scenes—the way Deng does now. Even now, not everyone is convinced it's time to write the Yangs' political obituaries. Yang Baibing made a recent public appearance at a New Year's tea party, and his elder brother was seen on TV greeting visiting dignitaries from his hospital bed. But they have certainly been dealt a major blow.

Under the Yangs' leadership, China's military grew increasingly political—a trend that was undermining the drive to modernize the armed forces. Recently, there have been massive shifts aimed at professionalizing the top brass. The shuffle will eventually affect close to 300 top commanders. Analysts believe a lot of these moves are connected with the purge.

GENERAL YANG, STANDING, WITH LI PENG

GETTING RICH. Moving into key slots are General Zhang Zhen, 78, a Deng loyalist who was expected to retire, and Lieutenant General Wang Ruilin, who also happens to run Deng's personal office. As party boss Jiang Zemin put it recently, it's important that "the gun be held firmly by the persons who are loyal to the party."

For the most part, the military has backed Deng's economic liberalization program—and with good reason. It's getting rich from it. The military's budget has increased 10% to 15% each year since 1989, and many military enterprises are busy turning a handsome profit on everything from weapons exports to pharmaceuticals. People's Liberation Army companies are flocking to Hong Kong—their gateway to wider export markets.

But reducing the chances of military involvement in succession battles is a definite plus. As long as the military sticks to its own business and stays out of politics, China is likely to experience a much smoother transition and far fewer disruptions on the way to the post-Deng era.

By Joyce Barnathan in Hong Kong

GLOBAL WRAPUP

RUSSIA

Call it the new protectionism. Pressured by industrialists, Russia's government has begun awarding natural-resource contracts to Russian consortiums—over Western rivals. In the latest case, Australia's BHP International Resources lost to newly created Udokan Mining—55% owned by Russian state and private interests and 45% by a Hong Kong-born entrepreneur, Edward Wong—for rights to develop the Udokan copper mine. It's one of the world's largest deposits, near Russia's Chinese border. "Many Russian industrialists now understand that they have to fight for their own survival," says Andrei Chuguyevsky, president of Udokan, which won the contract after promising local equipment makers $700 million in orders. An upcoming tender for Russia's largest proven gold deposit, Sukhoi Log, may also be for Russians only. Earlier, a Western consortium, including Du Pont Co. subsidiary Conoco Inc. and Norsk Hydro, lost out to Russians on the Shtockman gas field in the Barents Sea, after spending millions on feasibility studies.

CZECHOSLOVAKIA

The Czech and Slovak plan to maintain a common currency, at least until summer, is unraveling fast. After the country split in two on Jan. 1, Slovaks, fearing a devaluation, caused a run on foreign reserves and a surge in black-market trading. Both nations are racing to start separate currencies by early February.

ISRAEL

The competition to buy into the Israeli phone monopoly, Bezeq, is heating up. Both Southwestern Bell Corp. and Bell Atlantic Corp. have joined with Israeli partners for possible bids. Sprint Corp. and American Telephone & Telegraph Co. are also said to be interested. In a few weeks, the government will reveal how much of Bezeq it wants to sell and the terms.

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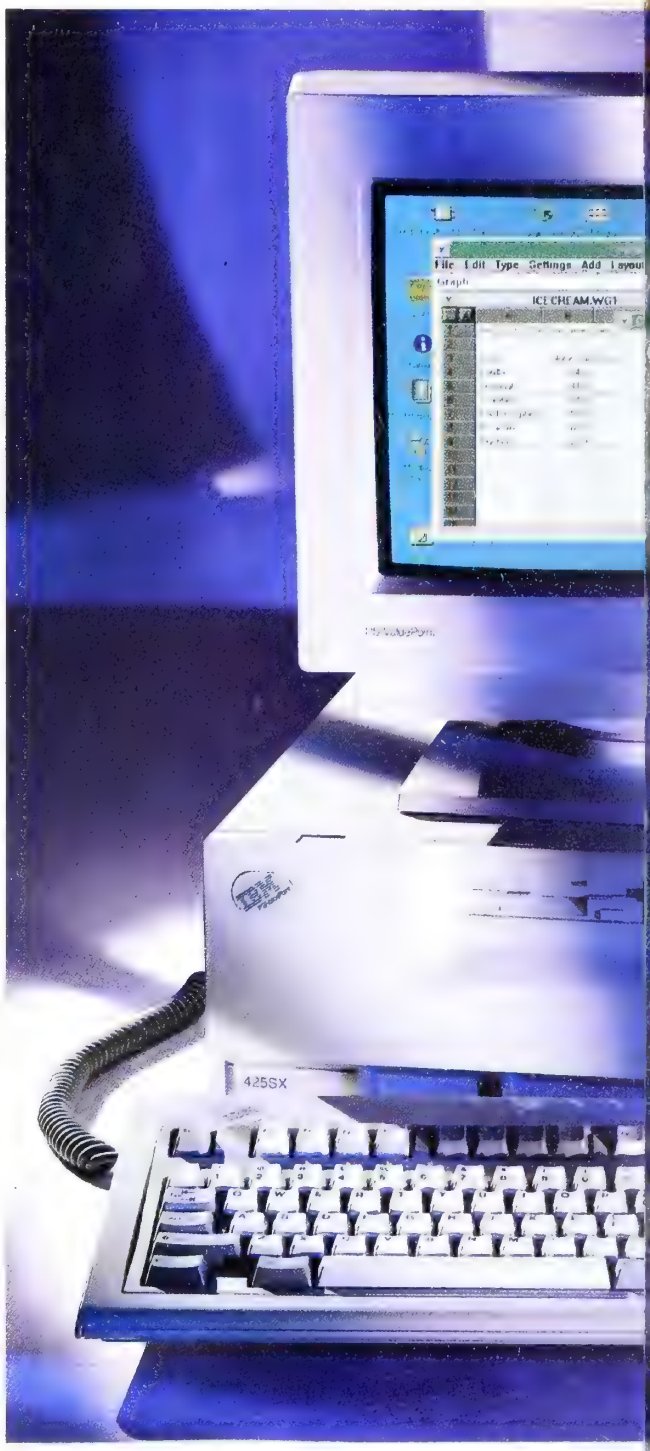

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STRATEGIES

THE SHOWDOWN OVER HYUNDAI

Korea's government is disciplining it with a vengeance

At 6 a.m. on the chilly morning of Jan. 14, Chung Ju-Yung, founder of South Korea's $53 billion Hyundai group, arrived anxiously at the headquarters of his United People's Party in Seoul. There he conferred with political aides over a summons from government prosecutors probing the alleged diversion of $70 million from Hyundai to Chung's failed campaign for President. The day before, Korean security officers refused to let him board a plane on a journey that was to take him to Washington for Bill Clinton's inauguration. For a powerful man used to going wherever he wanted, it was a bitter pill.

There could be more bitter pills. The world that the proud 78-year-old billionaire built is in danger of collapsing around him. Chung's political career is in tatters since he lost the presidential election in December to Kim Young-Sam of the ruling Democratic Liberal Party, coming in a distant third. And the business empire he built is under blistering attack.

A few months before Chung decided to enter politics, the government hit Hyundai with a tax probe. That, plus a later tax investigation, resulted in a staggering $214 million in fines and unpaid taxes and the jailing of one of Chung's sons. Altogether, some 113 Hyundai executives and employees either have been indicted for aiding Chung or are in hiding, Hyundai spokesmen say.

Now, the government is upping the ante. Although was later allowed to leave the count Chung was forced to undergo intensi questioning on Jan. 15 by prosecutors pr ing allegations of election law violatio Prosecutors said Chung denied all charg including that he helped arrange a transf of funds from Hyundai Heavy Industri Co. to his campaign.

But prosecutors say publicly that th have enough evidence to indict him. Conv tion of campaign violations would depri Chung of all civil rights, effectively endi his political career. Chung declined quests from BUSINESS WEEK for commen But one of his sons, Chung Mong-Jun, member of Korea's National Assembly, flected the family's concern. Reached Washington's Watergate Hotel, the you ger Chung said "Maybe, maybe not" wh asked if his father would be indicted.

The government's immediate goal a pears to be to force Chung out of politic President-elect Kim, who takes office Feb. 25, is anxious to show that he is strong leader who can discipline Chu and check the power of Korea's large *chaebol*, or conglomerates. "Chung mu decide what he wants to do, business politics," says Suh Sang-Mok, a member the National Assembly and a key econom aide to Kim.

FAMILY TIES. The outcome of the Hyund showdown could carry huge implicatio for the rest of Korea's top conglomerate including Samsung, Lucky-Goldstar, a Daewoo. In December's campaign, a three candidates pledged to end the co relationship between government and b business, both to open up Korea's politic process and revitalize a slowing econom But they still differ sharply over how fa the *chaebol* should be restructured a whether the founding families should co tinue to manage them.

No one knows just how far th showdown will go. Some har liners in Kim's camp wa to force the Chungs o of active manag ment of the gro

KIM YOUNG-SAM
Korea's President-elect wants to prove he can discipline Chung and curb the *chaebol*

The $53 billion Hyundai group could be facing a split-up into smaller groups managed and controlled by the younger brother and sons of founder Chung Ju-Yung. Here are the primary new groups emerging

ESTIMATED 1992 SALES, UNCONSOLIDATED

CHUNG MON
ELDEST SON
HYUNDAI PRECI & INDUSTRY
$1.75 BILLI
HYUNDAI HOU & INDUSTRIAL DEVELOPMENT
$1.57 BILLI
HYUNDAI MOT SERVICE
$4.23 BILL
OTHERS

together. Even if Kim doesn't go that .r, the government's pressure is encour- ging centrifugal forces among the 41 ompanies in the group. Chung, who offi- ally stepped down as chairman in 1987, as maintained control through his Asan oundation and family ties.

Now, Chung's younger brother, Se- ung, and sons are staking out pieces of ie group to manage and control (table). hat could diminish Chung's authority. onger term, it could result the breakup of Hyundai to smaller, independent nits.

There are limits on how ir Kim and outgoing Pres- ent Roh Tae Woo will go cracking down on Hyun- ai because of its critical ole in Korea's economy. yundai companies, says hee Namuh, an analyst ith Jardine Fleming Secu- ties Co., account for about 2% of Korea's exports and 9% of its gross national roduct. Hyundai is a powerhouse in doz- ns of industries, from shipbuilding to pet- ochemicals. The government does not vant a tailspin that would hurt Korea's verall economy.

But some damage is clearly being inflict- d already. The group's exports declined 1% in the fourth quarter of 1992, says Jar- ine's Rhee. Major Hyundai companies, ays Donald S. Lee of Lucky Securities Co., re expected to report a sharp decline in rofits. That's partly because they have een forced to increase borrowing from the igh-interest short-term market rather han getting cheaper government-backed oans. Hyundai Motor Co. is expected to how a 50% dip in net profits in 1992—the econd decline in as many years—notwith- tanding a 12% growth in sales.

GIANT SETBACK. So far, there are no signs hat Hyundai's problems in Seoul are hurt- ng its important pushes into Europe or the J. S. It is a particularly delicate moment or Hyundai in North America, where Hyundai Motor is now selling four auto nodels, ranging from the Excel to the So- nata. U. S. sales declined in 1992 by 7.7%, far from the group's earlier gung-ho pro- jections. Hyundai also has been obliged to relaunch its line of personal computers by hiring a team of Americans to redesign and market all its computers.

For the founder of Hyundai, the crisis could prove a startling reversal. Born dirt- poor in what is now North Korea, Chung built his business empire despite having only a grade school education. He got his start in 1947, when he took advantage of the big construction contracts being awarded by the U. S. military for bases. He built a reputation as a strong disciplinarian who demands hard work and absolute loyalty from his employees.

> Some in Kim's camp want to force the Chungs out of Hyundai

During the 1970s and 1980s, Chung was among the select group of Korean executives who benefited enormously from the *chaebol*-building policies of Korea's military dictators. At that time, the army-dominated government fostered the growth of the big groups by providing subsidized loans, tax breaks, and antitrust protection.

As Chung achieved success after stunning success, he concluded that he must run for an even bigger prize—the Korean presidency. Although he wanted to put greater distance between government and business, his goal was to make the *chaebol* less subject to government meddling. As Chung told BUSINESS WEEK early last year: "I'm fed up with the government's dabbling in the economy as well as business, and the corruptive collusion between business and politics."

But the government alleges that to make his bid for the presidency Chung used Hyundai funds and enlisted up to 300 top company officials to help his campaign. Whether the prosecutors actually indict Big Chung is ultimately a political, not a legal, judgment. Korea's Prosecutor General is a Cabinet official appointed by the President and obliged to take the government's position. In coming weeks, outgoing President Roh and President-elect Kim will decide whether to push for indictment.

If the confrontation becomes even nastier, the government could take steps that affect all the country's *chaebol*. It could, for example, limit the access by the country's 30 largest *chaebol* to the banking market. The government can apply pressure on other sensitive spots as well by assaulting the cross-holdings and cross-payment guarantees that the owning families use to bind their groups together.

Any such steps would be politically popular because of rising anger toward the *chaebol* in government, academia, and throughout Korean society. That's why the best bet is that Chung will be forced to bow out of politics and Hyundai will gradually break apart. By running for president, Chung took the biggest gamble of a long life and is now coming up the loser.

By Laxmi Nakarmi in Seoul

CHUNG JU-YUNG
The world the proud 78-year-old founder of Hyundai built is in danger of collapsing

G MONG-HUN
DAI ELECTRONICS TRIES
BILLION
DAI MERCHANT IE
4 BILLION
DAI ELEVATOR
2 MILLION
S

CHUNG SE-YUNG
YOUNGER BROTHER
HYUNDAI MOTOR
$8.0 BILLION

CHUNG MONG-YUN
SON
HYUNDAI FIRE & MARINE INSURANCE
$997 MILLION

CHUNG MONG-JUN
SON
HYUNDAI HEAVY INDUSTRIES
$3.2 BILLION

CHUNG MONG-KUN
SON
KEUM KANG DEVELOPMENT INDUSTRIAL
$513 MILLION

DATA: BUSINESS WEEK

There are 20 other companies in the group that the elder Chung controls through his Asan Foundation or whose control is still not clear:

HYUNDAI ENGINEERING & CONSTRUCTION
$3.5 BILLION

HYUNDAI PETROCHEMICAL
$4.4 BILLION

HYUNDAI CORP.
$15.3 BILLION

MANAGING AIDS

HOW ONE BOSS STRUGGLED TO COPE

Even today, Jean Langone Smith can't talk about that December morning in 1991 without stumbling, second-guessing, searching the air around her for just the right words. The truth is, she's never really gotten over the way she felt when Frank Daloisio walked into her office and tried to tell her he was slowly dying of AIDS.

Jean thought she knew Frank pretty well—about as well as most bosses know their employees, anyway. Off and on, they had worked together at Digital Equipment Corp. for nearly a decade. For the past two years, Frank had worked happily for Jean as a sales representative in DEC's Blue Bell (Pa.) office. Lately, though, a spate of illnesses had left Frank moody and despondent. His chronic absences were disrupting the entire office.

Frank's first attempt to break the news to Jean ended with the revelation that he was terminally ill. But that was all he said. Then, on an icy Monday morning a few weeks later, he sat down in Jean's office and rambled on about a friend who had died of AIDS. Both of them knew what he was trying to say, but neither knew how to express it. Finally, Frank stopped and asked: "You know what it is, don't you?" "Yes, I do," she said. "It's a terrible thing in our society." Jean still stings from the shame she felt. "What a dumb, impersonal thing to say," she chided herself. "The man is dying, for God's sake!"

As Jean discovered, the disease is too complex for policy manuals

This is the story of how one American middle manager struggled with AIDS at the office. It is a tale of fear and compassion, denial and hope, anger and humanity. In one way or another, it is a story being played out in nearly every U. S. corporation. The federal Centers for Disease Control estimate that 1 in every 250 Americans has been infected by HIV, the virus that causes acquired immune deficiency syndrome. Most are 25 to 44—the core age group of the U. S. work force.

Despite the spread of the epidemic, Corporate America's response has come in fits and starts (page 53). Many companies have thrown a policy at the problem and left it at that. Experts, however, agree it demands more: an ongoing educational effort, sanctioned from the chief executive on down, to dispel the destructive attitudes that swirl around HIV. As Jean discovered during her yearlong ordeal wit Frank, managing AIDS is much too complicate for policy manuals.

Even DEC's much-lauded AIDS-education pr gram was overwhelmed by the issues su rounding the disease. Unlike cancer and othe terminal illnesses, AIDS provokes some of ou worst fears and most insidious impulses. Ha Frank, 40, and Jean, 39, felt comfortable tall ing about his illness early on, they could hav avoided a lot of the problems they encou tered. But candor comes hard with AIDS, an experts agree confidentiality is an essenti element of any policy.

Lee Smith, a former executive of Le Strauss & Co. and now chairman of the N tional Leadership Coalition on AIDS, echoe many managers when he laments: "I was n trained to manage fear, discrimination, an dying in the workplace." Unfortunately, r sources for educating managers in how t cope with such thorny issues are often scarc and ineffective. Managing AIDS successfull distills into patience, empathy, and flexibility And for managers such as Jean who are f cused on profits, that involves an awkward— humanizing—shift in perspective.

For Jean, that shift began on a balmy Ma evening in 1991. That's when she threw cookout for her six-member sales team in th backyard of her suburban Philadelphia home. Things couldn have gone more smoothly. As the aroma of chicken, hamburg ers, and hot dogs drifted up from a grill on the wooden deck Jean's guests laughed and chatted. The friendly atmospher gave her plenty of reassurance that her sales team was havin a good time.

She needed it. Jean knew her reputation wasn't the bes among her employees. Tough, serious, and demanding wer among the nicer labels. Even her husband, Alan, sometime chided her about her hard-driving management style ("Jean you've gotta get your people to like you more"). He encou aged her, whenever possible, to show a softer side. The cook out was a way of loosening up a little, while also saying than you for a strong sales performance over the winter.

It wasn't that Jean was incapable of opening up to co workers. It had just never been a priority. She had worke hard to rise up the corporate ladder and wasn't given t

PHOTOGRAPHS BY MAX AGUILERA HELLWEG

FRANK HAD TOLD JEAN HE WAS DYING. TELLING HER HE HAD AIDS WAS HARDER

ddling. Born in Woburn, Mass., in 1953, she was the second-dest child in a hardworking Irish-Italian family. Her father as a carpenter, her mother a homemaker. Both parents in-illed in their eight children a strong work ethic.

After graduating from high school, Jean tried college and a b at a law firm before joining DEC as a secretary in the mpany's Maynard (Mass.) headquarters in 1976. Ambitious id strong-willed, she was never content in her support-staff le. By 1979, she had persuaded her superiors to send her to EC's Washington (D. C.) office as a sales representative. ithin six years, she rose to sales manager, and in 1987, Jean ansferred to DEC's Blue Bell office, just outside Philadelphia. She may not have been a touchy-feely manager, but Jean as certain her people knew they could count on her to be ir. In her eyes, that's all that really mattered. The Blue Bell fice had only one customer: Shared Medical Systems Corp., a rge health-care-services company based in Malvern, Pa. an's mission was to sell the company more computers while providing technical support and training. DEC set ambitious targets for the office, and Jean demanded that her reps be self-starters. "I expect my people to think on their feet," she says. "They're getting paid as professionals and should manage their own destinies."

Despite a good winter, however, office morale in the spring of 1991 had been dismal. Beyond the normal pressures of selling in a rotten economy, a series of crises—both personal and professional—had put the team on edge. One of Jean's sales reps was struggling with the death of a newborn child. Another was on maternity leave. Jean, meantime, had a problem of her own: She and Alan were trying to adopt a child, and the on-again, off-again adoption process had been a study in frustration.

The most recent crisis, the one that involved Frank Daloisio, was about to pass, or so she had hoped. For the past month, Frank had been out of the office sick; a doctor's excuse

described his illness as shingles. Energetic, personable, and seasoned, Frank handled the technical end of the department's sales efforts—advising the customer on using DEC's machines. Jean didn't know exactly what shingles was, but she did know Frank's absence had really thrown a monkey wrench into operations.

Her sales reps were busy enough without carrying Frank's load. They were an understanding lot, but Jean knew they wouldn't tolerate the extra work forever. Frank, too, must have figured sympathy for him was wearing thin. Earlier that week, he had phoned with terrific news. Not only was he planning to attend Jean's party, but the team could expect to see him back at work the following Monday. Jean breathed a great sigh of relief.

Until she saw him. The moment Frank walked through the backyard gate to join the picnic, Jean was overwhelmed by the stark change in his appearance. "My God, he looks terrible," she thought. That had taken some doing. At 40, Frank was a handsome man—olive-skinned, with silky jet-black hair and a chiseled face. Yet he had lost 30 pounds since Jean had last seen him. Dark rings circled his eyes, and his cheeks were sunken. His tall frame seemed unsteady as he leaned on a cane.

Frank's broad smile was enough to reassure Jean. But in fact, he was at an all-time low in what had been an eight-year battle against HIV. While he had suffered many bouts of sickness since having tested positive for the virus in 1983, nothing had been as debilitating as this case of shingles. An affliction related to chicken pox, shingles had wreaked havoc on his body, infecting a major nerve running through his right leg, causing it to go numb. The illness had also caused unsightly skin eruptions and irritation on his legs and lower back. A steady dose of painkillers helped, but they also kept him up all night.

JEAN WAS A TOUGH BOSS. EVEN HER HUSBAND ENCOURAGED HER TO SHOW A SOFTER SIDE

Until that point, Frank was certain he could keep his condition private—and he was determined to do just that. Having grown up in the small town of Phoenixville, Pa., the only son in a household of five children, he was well aware of how swiftly secrets travel once uncorked. Even today, he is quick to put in their place anyone probing the cause of his illness. "How I got it is nobody's business," he says. "Whether I'm homosexual, a straight man, an IV drug user. That's not the issue."

Frank always spoke his mind. He inherited both the unflinching candor and the free spirit of his dad, an Italian immigrant who at 13 saw America by hopping trains and hoboing across the country. While his sisters endured the strictures of their Catholic upbringing, Frank was a feisty teen, smoking cigarettes openly at home. His father tried coaxing him into the family beer-and-soda distributorship. B Frank politely declined. Too boring, he said.

Instead, Frank attended Pennsylvania State Universit graduating in 1976 with a bachelor's degree in liberal ar Unable to find a job, he supplemented his education wi computer science courses at a community college. By 1979, landed a job in DEC's Landover Hills (Md.) office, providi computer training to customers. He moved to the compan Washington office in 1984.

Just a year earlier, Frank had learned that he was HI positive. "The last thing on my mind was getting up and goi to work," he recalls. "But the reality was, I needed my ber fits." At the time, AIDS was even more baffling to the medic community than it is today. Frank had been told he cou expect to live two more years, at best. He began seeing psychiatrist to help battle depression.

It was during this time that he first met Jean. As part of t Washington division's sales-support staff, Frank's job was show her customers h to operate the compute she sold them. Duri their brief yet critical changes, Jean alwa impressed Frank as woman who was total about business." He joyed working with he

By 1987, however, r mors about Frank h begun swirling wildly the office. Not long b fore, he had offered hi self up as a "guinea pi to a group of scientis searching for an AI cure at George Washin ton University. T study demanded Fra leave the office on a week to get blo drawn. "Why are y always going to t doctor?" his co-worke began asking. The inq ries so worried Fra that within months, fled D. C. for DEC's fice in Dallas.

For Frank, maintai ing his privacy was worth the inconvenience of relocatin "I've always been paranoid about presenting my illness," says. "I've seen people lose jobs, life insurance, health insu ance, you name it. Plus, I had been told that if you're health there is no reason to disclose to anyone."

But after six months in Dallas, Frank became severely with pneumonia. He spent the next six months at home temporary disability. His oldest sister, Antoinette—the on person besides his lover whom Frank had told about his con tion—flew in from Philadelphia to be at his bedside. Th decided it might be better, all things considered, for Frank move back East, preferably to Philadelphia, where he wou be closer to his family. Frank concealed the truth from DE executives, saying a family illness required him to relocate

The best DEC could offer him was a transfer back to t Washington office. But a year later, on Nov. 6, 1989, Je hired him to work for her in Blue Bell. Frank considered it ideal situation. "I had heard good and bad stories about Je as a manager," he says. "She was tough on her peop

t she was not nosy, which was very important to me." Things worked out fine during Frank's first 18 months on ɔ job. His health didn't seem an issue, though Jean recalls ank spending a lot of time puffing Winstons in the designat- smoking area. A couple of times, when she heard him cking, she would walk over to him, concerned. "Frank, you ally need to start taking better care of yourself," she'd tell n. He always took her remarks in good spirit, and a couple times he even tried to quit.

By now, though, he had bigger worries. His illness had gun to accelerate. His T-cell count—a measurement of white ood cells, which fight infectious disease—had plummeted om 529 in 1982 to a hazardous 338. A healthy person has a T- l count that ranges around 1,200. With his immune system tering, he became easy prey for a host of illnesses—the ost serious being the bout of shingles. After his month off ork, Frank had only warily attended Jean's party. "I really arted to get paranoid because people my age just don't get ingles," he says. "I was hoping nobody would question me, d luckily nobody did. But I was scared for my life. When T- ls drop, I know the in- itable outcome. And I ew that eventually my ness had to come out."

Increasingly worried out his job, Frank ok his first big step: In e July, he showed up the office of Nona obinson, a personnel nsultant in DEC's hu- an-resources depart- ent. "It broke my art," recalls Nona Frank's disclosure. Here was this poor em- oyee who was gravely but he was afraid to l me. He was scared death."

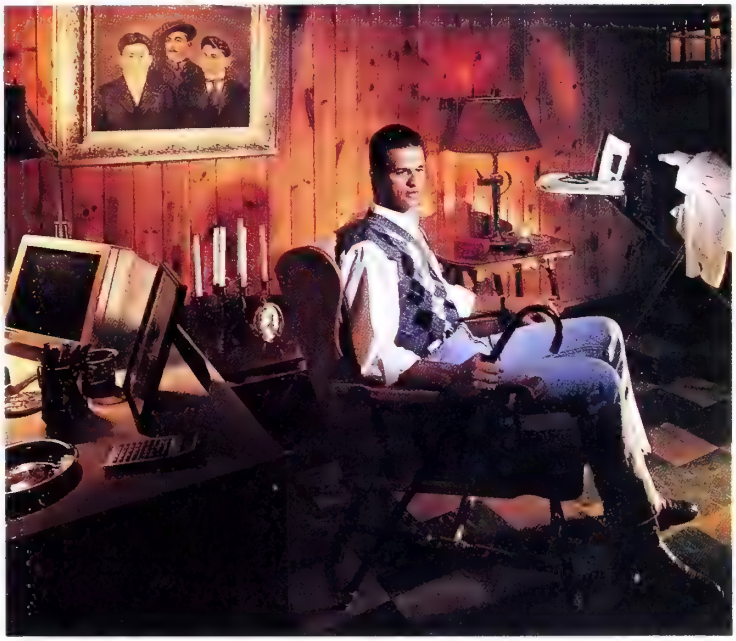
Digital is widely rec- nized as having one of e nation's most pro- essive AIDS programs. ot only does it have a ong policy, but since 88 it has had an HIV/ DS Program office, hich holds employee minars, acts as an in- rmation clearinghouse, d provides confidential counseling to any employee. Frank ould receive full benefits, and his condition would be kept nfidential as long as he wished. Moreover, he would be sured that his job status would not change until the time me that he was unable to complete his duties effectively. hen, he and DEC would adjust his job or design another that ok into account his failing health. The confidentiality ap- aled most to Frank. In due time, he would begin telling hers in the company, he said, but until then he asked Nona keep his secret. She agreed.

Experts concur that there's no way around confidentiality hen it comes to AIDS policy. An employee has a right to ivacy. But the secrecy that attends of the disease also cre- es many of the problems involved in managing an employee ho has it. The sicker Frank got, the more puzzling his havior became—and the less Jean understood what was ppening.

Within a week of returning to work after the picnic, Frank alked into Jean's office and firmly told her he wanted to use some vacation time, starting with a two-week trip to Thailand and Hong Kong. The request startled Jean. "I was thinking he was very assertive about what he wants. He's entitled to a vacation. But, frankly, I was a little annoyed." That wasn't all, either. Frank then declared he was planning another trip in December—this one to St. Barts in the Caribbean. "Up to that point, I had known Frank as dedicated and committed," Jean says. "Something just wasn't adding up."

Frank had become consumed by the thought of his own mortality. "I was like, I want to see the world. I pass through this place only once, and I want to see as much of it as I can." Jean decided not to challenge him. She knew Frank as a man who didn't bend easily. And confronting him on something like this might cause unnecessary stress between them. "I gave some time to Frank's issue, and then it was time to worry about other people and other business issues," she says.

But over the next few months, Frank's sick days kept racking up. He was still a heavy smoker, and a common cold often wound up as acute bronchitis. There were also side effects from his various medications that kept him out of work for two and three days at a time. Jean started to lose her patience—as did the rest of the sales team.



EVEN NOW, FRANK GUARDS HIS PRIVACY. 'HOW I GOT [AIDS] IS NOBODY'S BUSINESS,' HE SAYS

One teammate was Betty Ann McMichael. Although fond of Frank, she admits she and the others began resenting his being off work so often. "There was a feeling of inequity," she says. "We had team sales goals, and even though Frank was sick and others were carrying his load, he was still getting credit for helping meet those goals."

Disruptive rumors also began to fly. Frank's illness often became the topic of lunchtime conversations, sometimes focusing on his sexuality and the possibility he had AIDS. It's a testament to educational efforts about the disease that Frank's co-workers weren't particularly afraid of contracting AIDS. But at least one sales rep was so incensed that Frank appeared to be getting an easy ride that he badgered one of the secretaries—a friend of Frank's—to find out why Frank missed so much work. Others inquired directly if he was gay. "It got to the point where I was avoiding certain people," the friend says.

Jean ran some interference for Frank, but she, too, was under pressure. A consultant from headquarters had recently been assigned to help boost her team's productivity, and Frank's chronic absence was hurting. "It was beginning to be a real juggling act," she recalls.

In late November, things finally blew open. With emotions running high because of yearend sales goals and general holiday-season anxiety, Jean and Frank collided during a staff meeting. The team was just coming off a bad quarter, and Jean believed part of the reason was that the reps were acting more as individuals than as a cohesive unit. At the meeting,

she was trying to motivate her staff and create a stronger sense of teamwork. She was also divvying up various roles that each of the members would play.

She started with Frank, but couldn't get his attention. Despondent, he just sat in his seat, staring out the window. "It looked like he was totally tuning me out," Jean recalls.

"I expect you to respond," Jean shouted. But Frank wouldn't budge. He remembers being in great physical pain at the time and not caring what she thought. Jean, who was already upset by the team's lack of enthusiasm, became furious. "Well, you all figure it out," she said, storming out of the conference room. "I'm leaving."

When she returned to her office later that afternoon, there was a message on her voice mail. It was from Frank: "Jean, I did not like the way you confronted me at the meeting. I would like for us to have a meeting with human resources." Jean was baffled. Human resources? Her first reaction was paranoia. "I'm thinking: 'I'm about to lose my job. What did I do? What did I do? We know each other, why can't we talk? How thin-skinned can somebody be? This *is* a business.' "

That night, Jean took her frustration home to her husband. Distraught, she didn't know what to do. After talking it over with Alan and tossing through a sleepless night, she decided to talk to Frank again. "I admit that I was a little uptight," Jean says of the incident. "It was the end of the year, and we were all uptight." She figured their troubles would blow over.

Frank's disclosure of the real problem stretched over several weeks and two more meetings. In the first, Jean finally confronted Frank. "Like I said," he answered, "I think we need to have human resources here."

"But Frank, I felt we could trust each other," she said. Something about the way she said it, Frank explains, finally shook him up. He saw the concern on her face, and "she became a person for me then." But he still wasn't ready to tell her everything. "All I could think was: 'I don't know how she's going to react. I don't know how my co-workers are going to react, how my customers are going to react.' There were just so many unknowns." He decided to hedge.

"I have a terminal illness," he said.

Jean thought AIDS immediately but didn't say so. "I really felt incompetent and unprepared hearing that from somebody," she remembers. "I felt guilty, like, 'Geez, I've been putting all this pressure on this person.' But I didn't say I'm sorry he was sick, and I didn't know that's what he wanted to hear. You just say as little as possible."

Jean vaguely recalled that DEC had an AIDS policy and program. In fact, she could remember taking time out to read a pamphlet on the subject. The AIDS office at DEC headquarters near Boston had some exemplary seminars that would have helped both Jean and her sales team cope with the situation. Unfortunately, the seminars hadn't made it to Blue Bell yet.

Jean had absorbed enough company literature to know at least one basic fact: DEC would take full care of an employee with HIV. And Frank's admission—however inadequate—began to explain his behavior. But Jean was still in a fix. Frank immediately took several days off to sit by the bedside of a friend in the final stages of AIDS. The friend, who had been ostracized by his family, was dying alone. Jean tried to be sympathetic, but she ended up furious. "I had other people trying to hold his work load," she says. "I was calling custo ers. They were saying, 'Where's Frank? He's normally rig on the ball.' I felt like I was holding the bag."

Frank and Jean finally came to an understanding on th cold December morning after Frank returned—even thou the word "AIDS" never passed their lips. To this day, they ca remember the first time they discussed his disease open Eventually, they were able to—and it helped enormously. Je tapped into the resources of DEC's HIV/AIDS Program Offi And she turned to Nona Robinson in human resources guidance in creating a new job for Frank.

Even that wasn't easy. "We came up with some suggestio that Frank didn't like," Jean says, noting several options th included lots of sales work on the phone. Retorts Frank: "Th didn't take advantage of the skills I have. I've been worki here 18 years. Calling up people on the telephone, I felt li they were saying, 'O. K., let's put him in the corner ov there.' " In the end, Frank wound up in a newly creat position, which played to his technical strengths while limiti his visits to clients. The job required Frank to draw up co puter-system configurations, perform sales quotations, as w as do paperwork that bogs down other sales representativ

After Frank disclosed his illness to Jean, he took each of l co-workers aside and told them he had AIDS. He had agreed talk about his illness during a DEC-sponsored AIDS-awarene workshop, and he wanted to p pare them. At the worksh Frank choked back tears as he vealed to the entire sales force l condition. "When it came out the presentation, everybody ju sat there and cried," recalls Bet Ann, Frank's co-worker. Jean tended the workshop and ev stood up to share a few of t experiences she had with Frank

That was last summer. In Oc ber, Frank went on short-term d ability. The medication he takes causing serious side effects. I has a swollen spleen, which d tors are considering removin Shingles has also returned. Fra is living at his parents' hom where he has a computer linki him to the office. He goes in when he can and sometimes h lunch with a favorite customer or co-worker.

At the office, life is almost back to normal. Jean cred DEC's AIDS policy for helping sort out the details. But she al points out that she and her staff bore most of the trauma managing AIDS. "The AIDS office didn't come in and run business for me," she says. "I had to solve the organizatio problems. I had to make the decisions that would impa Frank, his co-workers, and his customers."

It's not exactly Jean's style to psychoanalyze herself. "As manager, it raised the bar for what I need to be," she sa flatly. Others think she's changed a lot. "In the past, peo didn't feel comfortable going in and saying what was on th mind, or just shooting the breeze," says Betty Ann. "But aft Frank's ordeal, Jean seemed to become more agreeable hearing your thoughts and just letting you talk to her."

Jean opened up, and that was crucial. DEC's policy on AI and others like it, represent an enlightened effort to insti tionalize compassion. Rules, though, are merely rules. F Jean and her co-workers, managing AIDS came down to disco ering a greater humanity within themselves. For Frank, meant marshaling the courage to confront his problem open Offices aren't typically the crucible for a mixture so perso and emotional. But there's nothing typical about AIDS.

By Ron Stodghill II in Blue Bell, P

Eventually, Frank and Jean found they were able to discuss his disease openly—and that helped enormously

WHY AIDS POLICY MUST BE A SPECIAL POLICY

FEAR AND MISUNDERSTANDING OF THE VIRUS CAN DISRUPT A WORKPLACE

At first blush, Corporate America's response to AIDS appears ironclad. Ask almost any major company its policy regarding employees who have contracted the deadly virus, and officials will likely reply: "We don't discriminate in any way. We treat HIV-positive ıployees in the same manner as victims of other terminal ıesses."

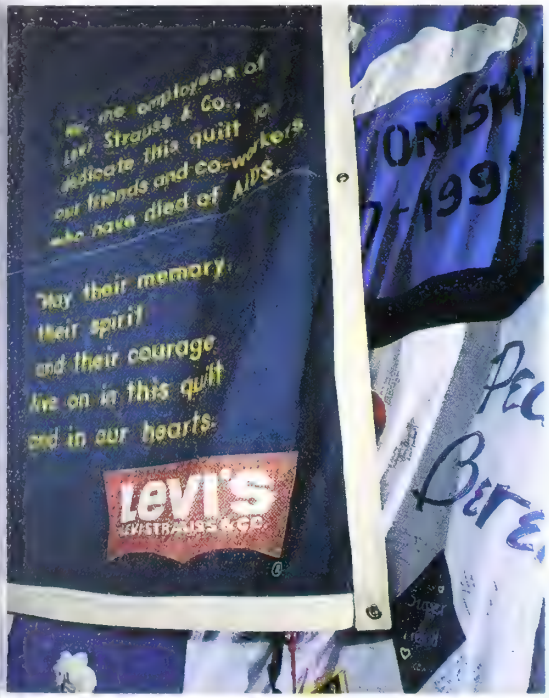
What that usually means is the company will provide a full ıge of medical benefits, the victim's privacy will be respect-, the employee won't be isolated, and the company will tailor · person's workload to accommodate the illness. If the vic- ı becomes too ill to work, company insurance will provide ıg-term disability assistance.

That's a great start. But managing AIDS is not that simple. ; Judy M. Spalding, executive director of the Dallas Legal ›spice, puts it: "What a company's position is [on AIDS] can very different from what's going on in the workplace." In ıer words, the fear and mythology surrounding the disease n quickly overwhelm even a company's best intentions.

In fact, AIDS is different from other diseases and needs to be ɜated as such. Because it is both deadly and transmittable ıough not through casual contact), fear about catching HIV n run rampant. The virus' association with homosexuals and ug users can inspire scorn and prejudice other diseases don't. "No matter how sophisticated or educated you are, AIDS can trigger irrational things in people," says Yvonne Ellison-Sandler, the official in charge of Levi Strauss & Co.'s trailblazing efforts on the issue. "There's big potential for disruption," she warns. "It could close a plant down."

Michael Gerety knows something about that. As the Southeastern general manager for New Jersey-based Toys 'R' Us Inc., he saw an AIDS scare severely disrupt one of the chain's surburban Atlanta stores last year. Morale and performance melted down after one of the store's workers developed AIDS and died. Employees went into a panic, Gerety says, and six months later, "they still would not use the water fountain or the bathroom stall. This was an entire employee group that was totally misinformed."

Gerety called in the American Red Cross to explain to his distraught staff that AIDS can't be transmitted through normal contact in the workplace. But he wishes he had done that much earlier. Rule No. 1 in the best corporate AIDS programs is that you have to expect trouble and be proactive in educating workers about the issues AIDS raises. That requires a comprehensive program that is clearly endorsed from the executive suite down (table). "This is frequently viewed as something that the personnel department should take care of, but there has to be support from the top," says Levi Strauss



TRAILBLAZER: A LEVI STRAUSS QUILT THAT COMMEMORATES WORKERS WHO DIED OF AIDS

HOW TO SET UP A SUCCESSFUL AIDS PROGRAM

POLICY

A policy regarding HIV-infected workers should:

- Protect an employee's right to privacy
- Insure full health and disability benefits
- Guarantee the employee won't be isolated from other workers
- Keep AIDS victims productive as long as they are able

MANDATORY TRAINING

Training for managers, supervisors, and union leaders should:

- Present facts on HIV
- Address personal concerns about AIDS in the workplace
- Reiterate company's policy
- Help with job restructuring
- Discuss how to manage co-worker concerns

Education programs for all employees should:

- Explain policy
- Present facts on transmission and prevention
- Encourage empathy for AIDS victims
- Provide workshops or forums for frank, open discussion

COUNSELING AND SUPPORT

Companies should provide counseling to:

- Help employees with AIDS cope with their disease
- Assist others in coming to terms with an HIV-infected co-worker
- Explore with supervisors the issues involved in managing AIDS

Chairman Robert D. Haas. "You can't do it with one flyer."

Ignorance and secrecy are by far the most disruptive factors when it comes to AIDS in the workplace. As soon as someone shows signs of illness or starts to miss work, rumor-mongering among co-workers can fan irrational responses. Managers, meantime, have no context within which to evaluate a sick employee's sagging performance. The result can be bitterness, frustration, and fear all around. And the person with AIDS—afraid of losing health benefits, being harassed, or even being fired—may put off disclosing the illness as long as possible. That only compounds management's problem.

AIDS experts agree that a policy of strict confidentiality is essential to protect the privacy of an HIV-positive employee. This is especially true since the virus can incubate for years before affecting the employee's health or productivity. The trouble is, disclosure to an AIDS office or human-resources department does little to alleviate problems in the office. For that reason, while many successful AIDS programs don't require people to disclose their condition to all involved, they often encourage it.

So that's the goal: to create an atmosphere that makes HIV-positive employees unafraid to disclose their illness. That involves a commitment not to ostracize the infected employee and an ongoing effort to sensitize co-workers and managers. "You have to keep at it," says Haas, "but once people have HIV education, [AIDS] just settles down as an issue in the workplace. It's very moving, in fact, to see the way people respond to a co-worker who has been afflicted by HIV."

Education usually takes the form of videos, seminars, and literature. The idea is to dispel myths, present the company's policy, and discuss ways to prevent the spread of the disease. Some companies, such as Levi, make the sessions mandatory for all employees. Others, such as Polaroid Corp., don't force the issue but are well-regarded for the wealth of information they provide to those who are interested. The important thing, says Anna T. Laszlo, an AIDS-policy consultant with The Circle Inc., a health-care consulting firm in McLean, Va., is that companies make sure their educational programs are not treated in a cursory manner: "It doesn't need to be a lengthy session," she says. "It just needs to get done."

One key to making an employee group comfortable is to ensure that all points of view are respected. While most policies prohibit moving a co-worker away from an employee with AIDS, many programs will provide counsel to those who are upset over the idea of working next to someone with a deadly disease. Likewise, videos and seminars are most effective when they're sensitive to their particular audience.

In the mid-1980s, for instance, Levi began disseminating to its plants nationwide a video it had used successfully at its San Francisco headquarters. The problem was, headquarters didn't edit the tape, which included a series of white, urban, gay men talking about AIDS. Ellison-Sandler, the director of Levi's AIDS programs, says focus groups in places such as El Paso scoffed at the tape, saying: "That's San Francisco. That's gay people. That's not the Bible Belt or us down in Texas."

As a result, Levi switched gears. Out went the San Francisco gays, and in went clips of Levi employees asking the types of questions the average employee might ask. A line worke wondered how the disease is transmitted. A recently divorce woman explained that she had just begun dating and wante to know how to protect herself. The video was incorporate into a one-hour program, which also included Red Cross volu teers and others knowledgeable about AIDS. It was conducte on company time, and all employees had to attend.

Education and counseling, of course, provide no panacea. A The Circle's Laszlo says: "Policy can't deal with all the d structive elements. Managers need to manage." Ofte though, managers wait until AIDS appears before acting. "Th fact of the matter is, most managers are more worried abou getting widgets out the door," says Haas. "That's their job.

That attitude can backfire in a big way. The Federal Avi tion Administration has a clear policy on air-traffic controller who take AZT, a drug used to combat HIV. Bu in 1989, one air-traffic control supervisor a Dulles International Airport apparently didn take time to read it. The supervisor suspende controller Ron Wilkinson from his job whe Wilkinson revealed he was taking AZT. Wilki son sued, since under FAA policy he shoul have been given an administrative position. judge in Virginia ruled the FAA had violated i own policy. Wilkinson died before the verdic but the judge awarded his estate $15,000 an legal fees.

There's no question that managing AID takes a big commitment—particularly fo small companies, where restructuring job educating employees, and providing benefit can be tough to afford. Storehouse Inc., a Atlanta furniture retailer with 100 employee ran into trouble when an AIDS case strained i self-insurance program. Claiming it had n choice if it wanted to stay in business, Stor house slashed its maximum lifetime AIDS-rela ed benefit to $25,000 from $1 million an promptly got sued by the employee, who ha to cancel a pancreas operation. A U. S. Distri Court judge ruled Storehouse did nothin wrong. But the case is pending appeal.

On the face of it, Storehouse would seem t have a point: AIDS is expensive. But the fede al Centers for Disease Control (CDC) estimate it is no more costly than other terminal illnes es, which also have to be insured against. Th difference is, AIDS is preventable through edu cation, which is affordable. The CDC and th American Red Cross can both provide info mation and inexpensive counseling to help d velop programs. A good video, if presente conscientiously, can make a big difference.

But many companies would rather take their chances—sometimes for odd reasons. "I've had businesspeople tell m they don't want to conduct AIDS education in the workplac because they fear other companies or their customers will se them as hiring 'those kinds of people,'" says Tricia Grinde director of education at AID Atlanta, a nonprofit AIDS group

That sort of attitude is probably rare, but even some e lightened companies seem to be dawdling when it comes t preparing employees for the worst. Delta Air Lines, Coca-Col and Chrysler all have policies but paltry educational effort Says Delta spokesman Neil Monroe: "We don't have any sp cific program. We haven't seen a need." Not yet, anyway.

By Ron Stodghill II in New York, with Russell Mitchell in Sa Francisco, Karen Thurston in Atlanta, Christina Del Valle i Washington, and bureau reports

WHERE TO TURN FOR HELP

CENTERS FOR DISEASE CONTROL/Atlanta
800 458-5231
Just published an extensive guide called Business Response to AIDS

AMERICAN RED CROSS
Local chapter can help provide employee training and set up programs

NATIONAL LEADERSHIP COALITION ON AIDS
Washington, D.C.
202 429-0930
Provides information, advice on specific workplace strategies

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IS TINSELTOWN TOO TOUGH FOR RUPERT MURDOCH?

Key executives have bolted, the film studio is saddled with flops, and flat ratings plague Fox TV

His green Mercedes convertible is parked steps from the front door of Twentieth Century-Fox Film Corp.'s low-slung headquarters. Nearby are the New York sets where *Hello, Dolly!* was filmed. Inside is the office where Darryl Zanuck ordered up such films as *The Sound of Music*. Rupert Murdoch, who now roams Zanuck's office, is—where else?—on the telephone.

The chairman of News Corp. is gathering data from the rest of his media empire: new circulation figures from his London newspapers and a status report on talks to restructure $3 billion of his company's $6.7 billion debt. These days, such discussions are a relief compared to the roller coaster Murdoch has ridden since taking hands-on control of his Fox TV network and movie studio.

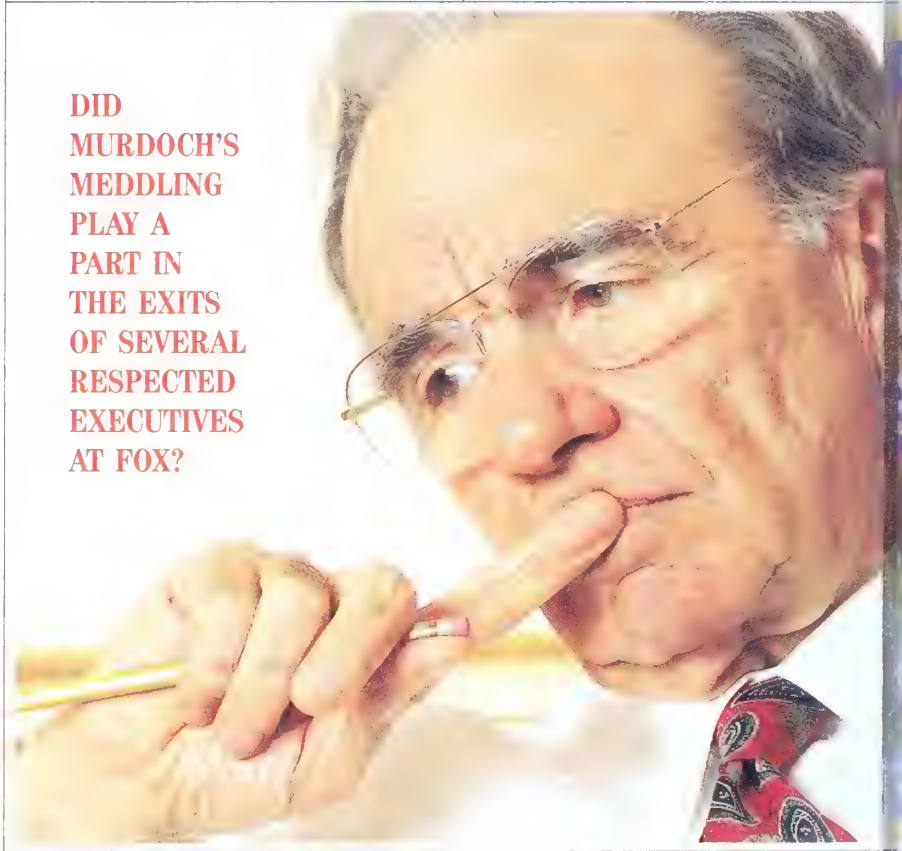
At 61, Murdoch certainly has all the trappings of a latter-day Zanuck. He and his novelist wife, Anna, spent $7 million three years ago for the hillside mansion built by MCA Inc. founder Jules Stein. And since last February, when Fox Chairman Barry Diller abruptly resigned, Murdoch has spent most of his time running the film studio, TV network, and five television stations. But Murdoch is still less a show-biz mogul than a hard-nosed dealmaker who leveraged a small Australian paper into the world's third-largest media company.

HOT TALK. Maybe that's why he has had such a rough landing in Tinseltown. First, Diller, the iron-willed boss who created the Fox franchise, resigned amid rumors that he and Murdoch were clashing. Then, Joe Roth, the respected chief of Fox's film studio, and Jamie Kellner, the head of the Fox network, both quit. All three claim they want to go into business for themselves. But Hollywood has sizzled with speculation that Murdoch's meddling drove them out, and Wall Street knocked more than 6% off the price of News Corp.'s U.S.-traded stock after Kellner's departure.

Murdoch has other woes, too. His Fox network has hit a wall after years of growth. Its Nielsen ratings are stuck at the same 13% share as a year ago, and in Fox's stronghold—men and women aged 18 to 49—viewership has even dropped slightly. Meantime, Fox's movie studio has suffered a string of big-budget flops, including the recent *Hoffa* and *Toys*. Only *Home Alone 2*, which should earn Fox at least $100 million, redeems the studio. "It sure looks like the place is in disarray," says former Fox TV station head Robert Kreek, now president of the Comedy Channel.

Has Murdoch gone awry in Hollywood without Diller at the tiller? Certainly, both the studio and the network need a steady hand. But since taking direct command, Murdoch has made nothing but waves in a world where lavish budgets and princely paychecks are taken for granted. He has played hardball on movie costs and rebuffed the salary demands of executives such as Roth. I dustry mavens shook their heads Murdoch's willingness to let Roth d fect to Walt Disney Co. rather th award him a rich contract to produ films independently for Fox.

Murdoch also flouted Hollywood tra tion by not replacing Roth with a high paid castoff from another big studio. I stead, he shuffled Peter Chernin, F TV's top programmer, over to the studi Chernin supervised only 15 films in h brief movie career—among them su commercial failures as *Dangerous Li sons* and *Running on Empty*. Similarl on the TV side, Murdoch moved lon time publishing executive Leslie Hint over to head the station group and pr moted Fox's top TV production exec, L cille Salhany, to run the network. Mu



DID MURDOCH'S MEDDLING PLAY A PART IN THE EXITS OF SEVERAL RESPECTED EXECUTIVES AT FOX?

:h says he hires people he trusts, but npany executives also say that hir- insiders gives him added control.

t's no surprise that Murdoch spends days on Fox's 53-acre lot. For one ng, he no longer needs to assuage bankers back in New York. Mur- :h's CFO is negotiating to stretch out turities on $3 billion in News Corp. ık debt. But one key banker says the ks are more routine than the dramat- refinancing that barely saved Mur- :h in early 1991. He says he is more ıcerned about the exodus at Fox.

After all, Hollywood has become the gine for Murdoch's global ambitions. News Corp.'s most recently complet- fiscal year, Fox's film and TV opera- ıs kicked in a quarter of the compa- s $1.4 billion in annual operating ome. For the next few years, says ırdoch, they'll also be the fastest- ›wing part of his company (charts). ıyone who owns a media company uld be foolish not to pay attention to electronic side," he says.

back: The network recently lost Keenan Ivory Wayans, creator of the popular comedy show *In Living Color*, after a tiff over how Wayans was compensated for airings of his show. Yet Murdoch seems committed to luring comedic talent. He says he authorized Fox to top CBS's $14 million-a-year offer to late-night talk-show host David Letterman, who still chose CBS. "We need to grow brand identity with Fox," he says.

MORE MOVIES. Murdoch is so focused on Fox because he sees it as the linchpin of a growing television empire. In the U. S., he wants to launch his own Fox cable channel to capitalize on expanded channel capacity. Overseas, he plans a string of cable channels to show old Fox movies. He also wants to expand broadcast TV delivered by satellite to three undisclosed countries, along the lines of News Corp.'s British Sky Broadcasting system. BSkyB could show a $66 million operating profit this year, after three years of losses, says London brokerage James Capel & Co.

$147.4 million. Even with the cash from *Home Alone 2*, Murdoch acknowledges that hefty expenses will prevent the studio from improving its earnings much this year. So Murdoch has taken a scalpel to costs: He refused to allow Roth to green-light *Die Hard 3* without finding another studio to share the film's estimated $60 million budget.

Murdoch hasn't prevented Chernin from signing off on some big-budget projects. Fox is pouring $35 million into *Rising Sun*, the film adaptation of Michael Crichton's controversial anti-Japan novel. And Murdoch insists he isn't micromanaging Fox. "I don't have the time to be reading scripts and making those kinds of decisions," he says. Observers say Murdoch still abjures the hobnobbing of Tinseltown.

Still, the restless mogul has developed some feel for his new home. Colleagues say he brings Fox releases home to screen for his friends. And when Murdoch sensed that the industry was chary about the low-profile Chernin, he trotted

NG COLOR MAY BE HURT BY THE TURE OF ITS CREATOR AND STAR

OF '96, A COLLEGE-AGE BEVERLY 90210, ANCHORS TUESDAY

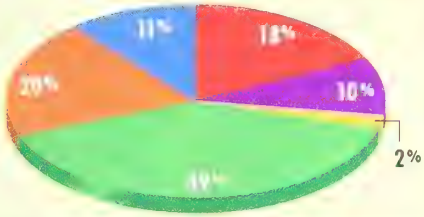
MURDOCH'S MIX

*Percentage of operating income contributed by major lines of business at News Corp.**

NEWSPAPERS · MAGAZINES · BOOKS · TELEVISION · FILMED ENTERTAINMENT · OTHER

1991 OPERATING INCOME $1.44 BILLION

1993 EST. OPERATING INCOME $1.56 BILLION



*OPERATING INCOME REPRESENTS EARNINGS BEFORE INTEREST, TAX, DEPRECIATION, AND AMORTIZATION OF DEBT. FISCAL YEARS ENDING JUNE 30
**PRIMARILY FROM COMMERCIAL PRINTING PROPERTIES

DATA: COMPANY REPORTS, MERRILL LYNCH & CO.

DESPITE JACK NICHOLSON, HOFFA IS ONE OF A SLEW OF BOX-OFFICE DUDS

FOX IS BETTING $35 MILLION ON THE CONTROVERSIAL THRILLER RISING SUN

Despite its ratings stall, Fox TV still s huge growth potential. Murdoch rs that after the addition of Tuesday- ght programming on Jan. 18 with the bout of *Class of '96*, Fox's earnings will uble this year, to about $90 million. expects the six Fox stations to kick an additional $200 million in earnings. But analysts say Fox can't continue to tperform the broadcast industry un- s Murdoch boosts its ratings. One set-

To fill all these services, Murdoch is counting on the Fox studio to supply films. That's one reason he wants Chernin to increase Fox's annual output to 24 movies from the current 18 and to hike the number of projects in development to 130 from 70. That would also spread Fox's bets around, hedging it against pricey failures such as *Toys*.

For the year ended last June 30, the studio's earnings were off by 9%, to

him out for an interview with *The Hollywood Reporter*. "Rupert has never said to me you can't make something," Chernin told the trade paper. "If there's a set of rules, he had better tell me soon." Given Murdoch's turbulent debut, his rules are something Hollywood might rather not hear about.

By Ronald Grover in Los Angeles, with Mark Landler in New York and Richard A. Melcher in London

POLICY

MIT GOES TO WASHINGTON

Its economists land lots of the new Administration's key jobs

They aren't FOBs—friends of Bill. They don't belong to the Oxford University mafia of longtime school buddies. Nor are they veteran Beltway insiders. They are the MITs. In a remarkable sweep, economists trained at the Massachusetts Institute of Technology are grabbing the prestigious economic posts in the new Administration. Like Harvard University during the Kennedy and Johnson Administrations and the University of Chicago in the Reagan years, it's MIT economics that will help shape policy in Washington under President Clinton.

The MITs are on the march. Laura D'Andrea Tyson, who will chair the three-member Council of Economic Advisers, got her PhD at MIT. So did Alan S. Blinder and Joseph E. Stiglitz, two other CEA candidates. Ditto for Lawrence Katz, slated to be chief economist at the Labor Dept., and David Cutler, expected to be the new liaison between the CEA and the National Economic Council. Even Lawrence H. Summers, almost certain to be named international Under Secretary at the Treasury Dept., briefly taught economics at MIT and received his undergraduate degree there.

ACTIVISTS. Although these MIT economists have made their mark in diverse fields—from international trade to capital-markets theory—the MIT approach to economics binds them together. MIT economists "believe that government can do a variety of things well and can improve the situation, vs. pure laissez-faire policy," says Stanley Fischer, a member of MIT's economics department. Adds Rudiger Dornbusch, also of MIT: "The Clinton Administration is exactly what MIT economics is all about."

If any economics department in the country can be labeled Keynesian, it's MIT's. Largely staffed with middle-of-the-road Democrats, MIT has never been swayed by Chicago's doctrinaire faith in free markets. In a 1987 survey of graduate students in six prestigious economics departments by economists David C. Colander and Arjo Klamer, MIT students stood out for their policy activism. For example, when asked whether fiscal policy was an effective tool for stabilizing the economy, 48% of MIT students agreed and none disagreed. Compare that with Chicago, where 44% disagreed and only 6% agreed. "MIT has always put a high value and high status on government service," says Paul Romer, economist at the University of California at Berkeley.

Tyson, now at Berkeley, advocates a stronger government role in international trade, including a willingness to get tough on Japan. She's against old-fashioned protectionism, but she does back some forms of industrial policy to support the nation's high-tech industries.

WHIZ KIDS. The other MITs are also in the school's tradition of activism. Blinder, a Princeton University macroeconomist and a BUSINESS WEEK columnist for the past seven years, favored an investment tax credit and increased infrastructure spending to get the economy out of recession in 1992. And in a book for a general audience, *Hard Heads, Soft Hearts: Tough-Minded Economics for a Just Society*, Blinder wants government to set environmental goals, though he wants to meet the goals by charging fees to polluters, rather than through regulation.

Joseph E. Stiglitz, a brilliant theoretician at Stanford University, focuses on how financial markets depart from the ideal of perfect competition. Katz and Cutler, both labor specialists at Harvard, have demonstrated that widening income inequality over the past two decades largely reflects the steep drop in wages paid to less-educated workers. Katz argues for better human-capital investments, including training and apprenticeship programs. "One guarantee is that if we do nothing, things look pretty pessimistic long-term," he says.

It's easy to see why the MIT whiz kids

ECONOMICS, MIT-STYLE

- Strong public policy tradition
- Highly mathematical and technically sophisticated
- Internationally oriented
- Open to government action
- Keynesian in approach

DATA BUSINESS WEEK

ıre making a lot of people nervous these days. "No question that these are the best and brightest," says Donald McCloskey, an economic historian at the University of Iowa. "But where have we heard that before?"—referring to the 1960s generation of liberal economists who tried to tame the business cycle and failed because of the government's guns-and-butter policy during the Vietnam War. He worries also that the MITs' ideas for boosting human capital will turn out to be just another social-engineering experiment that will cost lots of money and eventually founder like many of the Great Society programs. Arjo Klamer of George Washington University echoes the admiration of other economists for the technical virtuosity of the MIT graduates, but he says that their models offer little guidance for real-world economic problems.

INSPIRING FIGURE.' The seeds for MIT's Washington takeover were planted 50 years ago, when Paul A. Samuelson went to MIT after Harvard did not appoint him to its faculty. (The talk was that anti-Semitism was the reason for excluding Samuelson, the brightest star in economics, from Harvard Yard.) Samuelson, America's first Nobel laureate in economics, has contributed to just about every branch of economics. And Samuelson, who modified Keynes's theories, was the principal economic adviser to John F. Kennedy during the 1960 Presidential campaign.

When Samuelson arrived, the MIT department was little more than an adjunct to the engineering and science schools. But his growing reputation attracted top-flight economists, including Robert Solow, the 1987 Nobel laureate in economics. Solow, a staffer on the Kennedy CEA and a leading growth theorist, believed that economists should contribute to public policy. "Robert Solow is the inspiring figure to my generation of MIT graduates," says Robert Hall, an economist at the Hoover Institution. "You cannot underestimate the contribution Solow made to all of us." MIT was the nation's No. 1 economics department from 1974 to 1985, based on the number of articles written by its faculty and the prestige of the journals in which they appeared, says John Tschirhart, economist at the University of Wyoming. Economists say there is no reason to think its ranking has changed.

But by MIT's own standards, the ultimate test will not come from journal articles, but in how well its economists' policies work. For years, economists have been ignored in Washington, as both their forecasts and proposals have been widely off the mark. Clinton is handing the MITs a chance to prove that their brand of economics is indeed No. 1.

By Christopher Farrell in New York

Commentary/by Michael J. Mandel

LAURA TYSON'S PUBLIC MUGGING: ECONOMISTS SHOULD BE ASHAMED

With friends like these, who needs enemies?

While economists are often the butt of jokes, it's rare for one to be the target of a public mugging by other economists. But that's just what happened to Laura D'Andrea Tyson when she was chosen to head Clinton's Council of Economic Advisers. Immediately, her qualifications were openly challenged by some of the profession's biggest names. Robert J. Barro, a respected conservative macroeconomist at Harvard University, derided her for having "scant academic credentials." Paul R. Krugman of Massachusetts Institute of Technology, a liberal widely mentioned as a possible CEA head himself, questioned Tyson's analytical skills. In private, many other academic economists echoed the complaints.

The attacks on Tyson reveal more about how far academic economics has drifted from the real world than about her supposed failings. Tyson, MIT-trained and a full professor at the University of California at Berkeley, a top economics department, has far better credentials than many previous CEA chairmen who received few brickbats.

> A pragmatist, Laura Tyson's true sin is apostasy rather than incompetence

What upsets many academic economists about Tyson is that she is far more open than most economists to the idea of government action. In her latest book, *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, she writes: "We must not be hoodwinked by the soothing notion that, in the absence of U. S. intervention, the fate of America's high-technology industries will be determined by market forces." This skepticism about the invisible hand's wisdom makes her *persona non grata* in a profession where belief in markets is imbibed with mother's milk.

Even worse, from her critics' viewpoint, the influence that Tyson's common-sense realism is gaining calls into question the sterile mathematical models now dominating the profession. Fledgling economists—even ones who start out interested in public policy—cannot get tenure at major universities without proving theoretical virtuosity, even if they have to abandon relevance along the way.

Barro, one of Tyson's main detractors, is among the worst offenders: He made his academic reputation with a rather startling theory that government budget deficits don't affect interest rates, investment, or anything else—because "the increase in private saving exactly offsets the fall in public saving." However interesting a theory, it has proven wildly wrong in practice.

HIGH PRIESTS. Judged by usefulness, Tyson's advice is likely to be much more helpful to Clinton than what he would get from Barro or many of his better-known peers. Her true sin, it seems, is apostasy, not incompetence: She is dangerous and offensive to the high priests of academic economics precisely because she, once one of them, no longer even gives lip service to their models and theories.

Indeed, Tyson is not alone: Other young economists believe pragmatism and relevance are more important than theoretical purity. Some of them, too, may serve in the Clinton Administration (page 74). But their number is still small, and the shrill criticism of Tyson for being insufficiently analytical just makes academic economists seem even more out of touch.

After 20 years of disappointing growth, politicians and the public have simply lost their faith that economists have the answers. That's why Clinton, who won the November election mainly because of public concern over the economy, appointed noneconomists such as Robert B. Reich, a lawyer, and Robert E. Rubin, an investment banker, to his other top economic posts.

Of course, economic theory has an important role—particularly at universities. But in the real world of public policy, Tyson's pragmatic approach deserves a better hearing than it is getting from the mandarins of the profession.

Economics Editor Mandel has a PhD in economics from Harvard.

THE ANGRY VOICES AT KIDDER

The brokerage firm faces a flurry of employment-discrimination charges—especially from women

Ever since General Electric Co. bought Kidder, Peabody & Co. for $600 million in 1986, the Wall Street investment bank has disappointed its performance-driven parent. Among other things, it has been plagued with lackluster earnings and an embarrassing insider-trading scandal.

Now, just as Kidder is making a big comeback, with an estimated 1992 profit of $300 million, another nettlesome problem is emerging. The 127-year-old brokerage has become the target of several sex-, age-, and racial-discrimination charges that could slow its turnaround.

Women in particular complain that Kidder, chiefly its core investment banking division, has been an often hostile place to work. According to interviews with over 15 former Kidder women, ranging from entry-level associates to a managing director, the executives who ran the division froze them out of top jobs, paid them less than male counterparts, and subjected them to verbal harassment. At least four women have filed sex-discrimination complaints with the New York Stock Exchange, the National Association of Securities Dealers, and the U. S. Equal Employment Opportunity Commission. They include Elizabeth Sobol, a former Kidder managing director and one of its highest-ranking women. "Women were always underpaid at Kidder. Even if they got the promotion, they were never allowed into the power structure," says Sobol.

Kidder denies that it discriminates against women. But the firm's top executives in the past year have become much more attentive to women's complaints. Kidder Chief Executive Michael A. Carpenter has personally initiated meetings with senior women, put women on all seven of the operating committees that run the firm, and begun hiring more women. "Kidder Peabody is committed to equal employment opportunity for all employees," says Carpenter. "I believe that this is an industry whose track record is not outstanding, and Kidder, like other firms, has more work to do. We are very pleased with the many steps we have taken so far to fulfill that commitment."

"Women were always underpaid at Kidder. Even if they got the promotion, they were never allowed into the power structure"

ELIZABETH SOBOL
FORMER MANAGING DIRECTOR
KIDDER PEABODY

NOT UNIQUE. Blacks and workers over 40 have also accused Kidder of discrimination. On Dec. 23, 1992, the EEOC, responding to complaints from Kidder employees, charged the firm with age discrimination in federal court. "They replaced me with a fellow in his 30s. It had to be strictly because of age," says Charles D. Erikson, a 53-year-old former Kidder managing director and the key EEOC plaintiff. And several black Kidder professionals have accused the firm of racial discrimination. One is Alphonse Fletcher Jr., a trader who sued the firm in New York Supreme Court. Kidder is fighting both the charges.

Kidder is far from unique on Wall Street in its alleged insensitivity to certain categories of employees, especially women. The Street has long been a bastion of white males, especially young white males. The heads of some firms privately admit that the industry lags behind the rest of Corporate America in addressing sex discrimination. Kidder

s just 4 women on its roster 115 managing directors. omon Brothers Inc. has 5 t of 155, while Merrill nch & Co. has 29 women of 306.

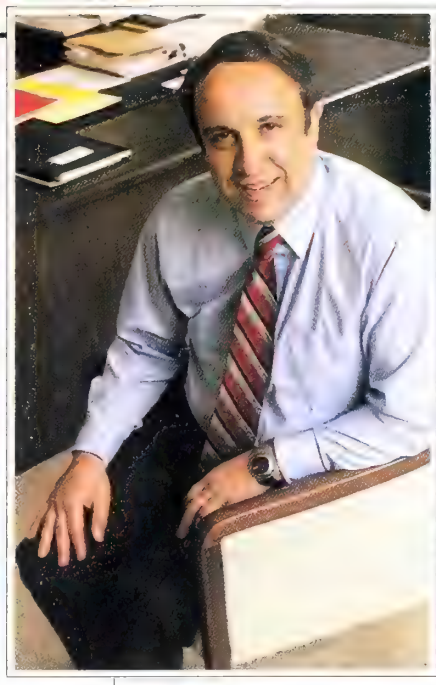
)ne reason is the Street's ture tends to be inimical to- rd women. "Women on ıll Street must contend with ups, foul language, hostile itudes, and entertaining cli- s in places that are off-lim- to women. It's a macho .ce," says Felice N. ıwartz, president of Cata- t for Women Inc., a wom- s advocacy group. Sexual 'assment and discrimination es involving financial-ser- es institutions are on the e (chart). Current targets lude Citicorp and Boston The two institutions de- ıed comment on the specifics.

RDON ME? At Kidder, according to men interviewed by BUSINESS WEEK, hostility took subtle forms. Women re often excluded from professional l social functions. "On weekends, re were barbecues and dinners that ı weren't invited to," says one bank- Says another: "My boss told me he l to put a guy on the deal because the ınt wanted to ski with his buddies."

Verbal harassment was common, say former Kidder professionals. Com- nts from male colleagues ranged m "What size are your breasts?" to our skirt is too long, I can't see your s" to "You should go out and wear a t T-shirt and be a cheerleader for the n" before a firm football game. A mer executive saw a male managing ector yelling female-specific obscenı- s at his female sales assistant. When executive complained to a superior, e was ignored. "They implied I was ıg," says the executive.

Carpenter responds that "when we've en aware of these issues, we've been relenting in dealing with them." As a e in point, Kidder sources point to ıstafa Chike-Obi, a trader of mort- ge-backed securities. After three nths with Kidder, according to a Kid- official, Chike-Obi was fired in June, 92, for allegedly sexually harassing a lder saleswoman and a female Kidder ınt while at an out-of-town business ner. Chike-Obi has filed a $10 million Camation-of-character lawsuit in New rk State Supreme Court against the lder saleswoman, who is fighting the t. "We categorically deny any allega- ns of sexual harassment by Chike- i," says his attorney.

Carpenter blames the complaints on nagerial turmoil within Kidder's in- ıtment banking division in the late



"This is an industry whose track record is not outstanding, and Kidder, like other firms, has more work to do"

MICHAEL CARPENTER
CHIEF EXECUTIVE
KIDDER PEABODY

1980s and overly zealous plaintiffs' attorneys. "These particular accusations result from the confluence of Wall Street greed, industry downsizing, and lawyers who appear to prefer to use the media rather than the courts to resolve these issues," says Carpenter.

The flurry of employee complaints at Kidder is a recent phenomenon. Its investment banking division was once considered sleepy and old-fashioned but had a collegial culture that was supportive of its employees. The same could be said for its retail-brokerage and trading divisions. "From 1981 to 1986, Kidder was one of the best places for women to work on the Street," says investment banker Susan H. Wolford, a Kidder senior vice-president until 1991.

After GE bought Kidder in 1986, it entered a period that forever changed what some still call "the old Kidder." Starting in 1986 under Chairman Silas S. Cathcart, the investment banking division was rent by turmoil, stemming from the insider-trading scandal, the departure of old-time employees, clashes with GE, and a new, cutthroat culture. Women say Kidder's attitude toward them changed to indifference.

In 1988, an informal group of about 15 women in investment banking gathered information from women at other firms to see how Kidder measured up. At the middle level, only 8% of Kidder vice-presidents were women, vs. an average at other firms of 15.5%. Kidder's record with entry-level associates was even worse. Leslie Jewett, a former Kidder senior vice-president, met with a Kidder investment banking chief to discuss the findings. "He thought it was probably a bunch of garbage and that we should just get back to work and not worry about it," recalls Jewett, now a chief financial officer in California. The executive denies the meeting took place.

But Carpenter, an affable Englishman and former second-in-command at General Electric Capital Corp., the company's finance unit, took a different position. In hopes of stanching what was termed a "meltdown" of its investment bank, he wrote a report to his bosses at General Electric Financial Services, mapping his plans to rebuild the division. Among his conclusions: "Kidder historically has not focused management attention specifically on increases in female/minority representation in higher level positions."

PAY INEQUITY. Yet Carpenter's sensitivity seemed to dissipate during the tenure of Scott C. Newquist, a former Morgan Stanley & Co. investment banker hired in May, 1989, to rebuild the investment bank. While Newquist rescued the ailing department, former Kidder employees say he fired people arbitrarily and with little regard for performance. Kidder employees said Newquist's abrasive and demeaning style caused hard feelings among both men and women. "He's the one who will cost them [Kidder] money in age- and sex-discrimination charges because of the people he let go and the atmosphere he set," says Jewett. Newquist declined comment.

One woman Newquist alienated was Sobol. Although Sobol, 48, had a very profitable track record, Newquist assigned a co-head to her department and refused to appoint her to an important firm committee, a post she says her position entitled her to. She quit in April, 1991, and filed an arbitration case with the National Association of Securities Dealers for $5 million. Sobol says she made $700,000 in her best year, a tidy sum, but less than a male associate who worked on the same deals.

Kidder says Sobol was paid $960,000 in 1990—more than 8 out of 11 investment banking division heads. "I feel totally surprised by her actions," says Carpenter. "I spent more time counseling her than any other

employee. In none of our discussions was the issue of discrimination ever raised."

Cathy Cumberpatch also says she was underpaid at Kidder. Cumberpatch, who joined the firm in 1983, was dismissed at the end of 1990 when she was a vice-president in investment banking. She charged in an arbitration proceeding at the New York Stock Exchange that she was paid less than male associates with the same experience. In September, 1992, she was awarded $94,000 in damages plus expenses, says her attorney, Anne Vladeck. Cumberpatch had sought $1 million. Kidder declined comment.

Perhaps the most sensitive case was that of Nella Domenici, the daughter of Senator Pete V. Domenici (R-N. M.). In 1990, she was hired by Kidder's mergers-and-acquisition department as a vice-president. After leaving during a wave of layoffs in mid-1991, she complained to Kidder about sex discrimination and unfair compensation, say four former Kidder women who spoke to her at the time. She later settled her dispute quietly with Kidder, say these sources. Neither Domenici nor Michael DeVorkin, her Ne York attorney, responded to reques for comment. Kidder declined commer

Newquist left Kidder in May, 1992, Carpenter's behest, say sources close the firm. The reason, they say, was power struggle with Carpenter, not h stance toward women. But the legacy so much upheaval persists. In its fir move against a securities firm, the EE charged Kidder with firing 17 inve ment bankers illegally because of th ages, beginning in January, 1990.

Kidder feels it has been unfairly s

HE SAID, SHE SAID: THE CASE OF PHILIP LACOVARA

Philip A. Lacovara is perhaps best known for his role as special counsel to the Watergate prosecutor. He is also a former deputy solicitor general and former colleague at General Electric Co. of Attorney General-designee Zoë Baird. As general counsel and secretary at Morgan Stanley & Co. since 1990, he has strengthened the firm's sexual-harassment policies. Now, Lacovara is the target of sexual-harassment charges from three women who worked as secretaries in Morgan's legal department, including his own secretary, Sharon Parrish. Morgan Stanley announced in mid-December that Lacovara would resign as of Feb. 1. He doesn't have another job yet but says he is weighing several offers.

The claims against Lacovara vividly demonstrate how difficult it can be to evaluate alleged sexual-harassment incidents. The truth about what Lacovara supposedly did is elusive. His actions apparently involved not blatant sexual overtures, but comments and actions whose intent can be subject to wide interpretation. In some incidents, what really happened is a question of she said vs. he said. Others involved comments that both sides agree were said. While some people might view them as innocuous, others might think them inappropriate, perhaps because of their alleged frequency. According to the Equal Employment Opportunity Commission, the critical determining factor for sexual harassment is whether the conduct was "unwelcome."

The accusations against Lacovara are outlined in complaints recently filed with the EEOC. Sources close to Morgan Stanley read selected portions of them to BUSINESS WEEK, perhaps to give the impression that the complaints were trivial. Among other things, the complaints accuse Lacovara of making constant lewd comments about the women's looks. Jeffrey L. Liddle, a lawyer for the women, declined comment about the claims. The women couldn't be reached for comment.

A Morgan spokesperson says that two law firms found no evidence to support the charges. Lacovara denies them and says they have nothing to do with his exit: "We all recognized the timing on this couldn't have been worse and that people were going to link two developments that weren't linked in any way." Lacovara says he has done what he intended and is leaving to pursue other opportunities.

"We all recognized that the timing [of my resignation] couldn't have been worse"

PHILIP LACOVARA
MORGAN STANLEY

Parrish, according to passages read to BUSINESS WEEK, alleges about a half-dozen incidents over two years. On one occasion, Lacovara sent Parrish to his apartment to accept delivery of furniture and allegedly asked her opinion on art hanging in the bedroom, which she claims was pornographic. She also alleges that Lacovara made "frequent" references to her "nice legs."

Those charges leave out key facts, responds Lacovara. He says that Parrish had problems with her work from the start and only alleged sexual ha rassment this fall—about a week afte he told her to look for another job. A for the apartment incident, Lacovar says Parrish later told his wife on th telephone that she peeked into the bed room on her own. He also says th pictures were hardly pornographic, bu sketches of women by the well-know illustrator Louis Icart. And Lacovar says that at least three times he urge Parrish to dress more professionally.

'LAUGHABLE.' The second secretar worked for Lacovara for three week last June until she was term nated for performance rea sons after failing a typin test, says Morgan. Accordin to the complaint, the secre tary alleges that Lacovar "brushed up against her" an "looked her over intensely, and also that Lacovara prop sitioned her. The secretar had just commented on a pi ture of Lacovara's seven chi dren when he respondec "I'm an old-fashioned kind c guy." Taken in context wit other alleged incidents, th secretary construed that to mean Lac vara was inviting her to be his mi tress. He calls the charge "laughable.

The third secretary did not work d rectly for Lacovara. Still, the complair alleges that Lacovara "undressed he with his eyes" and that she "hated t be alone with him." Morgan Stanle says the woman was Parrish's frien and was fired for cause and neve mentioned sexual harassment unt months after her departure.

The EEOC will have to decide whethe to bring a formal complaint. As i many sexual-harassment cases, gettin at the truth will be no easy matter.

By Michele Galen, with Leah Nathar Spiro in New York

d out by the EEOC. The firm also mes Sobol and her attorney, Jeffrey Liddle, for spurring the EEOC age rges. Kidder execs note that Sobol ubles as one of the 17 plaintiffs in the OC's age-discrimination case. And Lid- is attorney to both Sobol and Erik- n. Says Liddle: "Their [Kidder's] char- ter assassination of me is an mission that they are doing exactly at they've been charged with."

SITIVE IMPACT. Kidder also says very v of those laid off complained to the OC. Between 1989 and 1991, of the 226 ple age 40 or over—and thus eligible file an age-discrimination complaint th the EEOC—only 17 were unlawfully missed. "Considering that so many ple over 40 left the firm, it shows w weak their claims are," says Kidder orney Ronald M. Green.

Kidder insists Erikson was fired for t producing revenues, not age. And een says it was Sobol who fired Erik- n. That was corroborated by a Sobol mo obtained by BUSINESS WEEK. Sobol ys she was pressured to fire Erikson, d the EEOC believes her. "That memo es not accurately reflect the reasons his [Erikson's] discharge," says Lou- Graziano, the EEOC lawyer on the se. Erikson had no comment.

Whatever the case, Carpenter is ad- essing Kidder's employee complaints. early 1992, he held a four-hour dinner eting with senior women at Kidder to cuss their concerns. Since then, each ision has been required to set specific gets for hiring and promoting women d minorities. The firm is now recruit- g at a more diverse group of colleges. the past 12 months, Kidder has hired professionals, 80 of whom are wom- , says a Kidder spokeswoman.

Carpenter is polishing his own image, . When he hosted a YWCA Women hievers luncheon on Nov. 19, 1992, dder bought a full-page ad in *The New rk Times* with a photo of him as well the 134 women honored. "Mike told he wanted Kidder to be a leader, not say we're no worse than other firms d use that as a crutch," says Carol L. dge, a Kidder managing director.

But problems linger. The firm's re- arch department, an area where wom- elsewhere have made big inroads, has st 5 women analysts out of 45, or 11%, mpared with 27% at Lehman Brothers. 14 new managing directors appointed 1992, none was a woman. Of 70 senior e-presidents appointed, 6 were wom- . While women were added to all 7 of dder's operating committees, there is ne on the key management committee at approves major decisions. So Kidder ay no longer be hostile toward women, t it doesn't yet seem to be welcoming em into the power structure.

By Lean Nathans Spiro in New York

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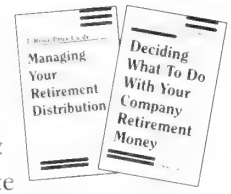

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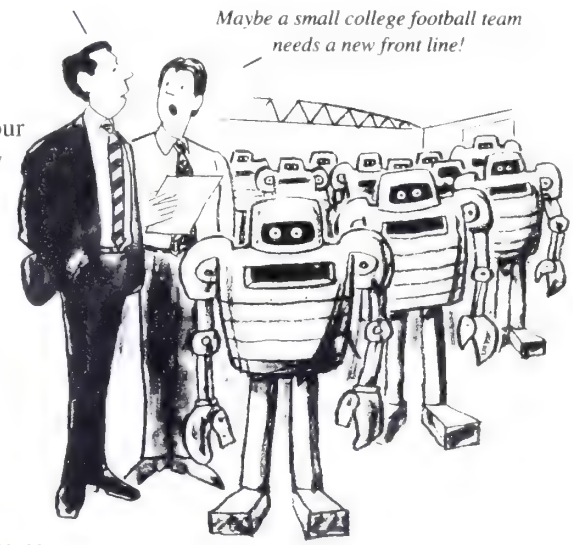

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MARKETS & INVESTMENTS

DON'T BE SCARED BY BAD NEWS FROM THESE BEARS

Stock-market techies come up with odd patterns—and dire omens

"THE END IS HERE!"

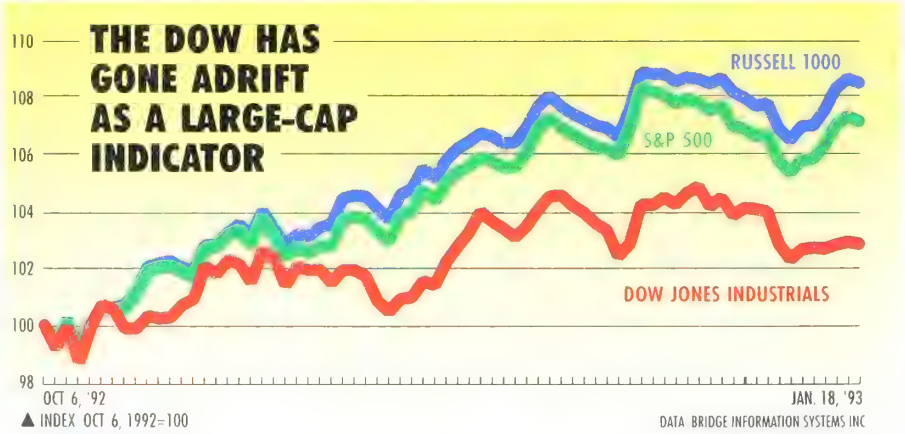
Such is the eye-grabbing title of the latest edition of *Stockmarket Cycles*, the bible of long-term-trend followers. It pretty much sums up the atmosphere of fear that has descended upon Wall Street's chart-watching price-and-volume gurus, the technicians. You name it, they're scared of it: from twists and turns in the charts to "excessive" volume at the NASDAQ over-the-counter market—heralded as a sign of speculative frenzy—to the "put-call ratio" of, supposedly, wildly bullish options activity. Techies predict the outcome will be ulcers aplenty in 1993: a decline of 500 points or more in the Dow Jones industrial average.

If the doomsayers are right, then a rude shock is in the cards for the thousands of small investors who are shifting their savings from low-yielding instruments into equity mutual funds—itself viewed by the technicians as an evil omen. So is it time to pull out? Don't bet on it. A significant minority of technicians argues—convincingly—that scurrying for the lifeboats right now would be a mistake. The market has a lot more energy than meets the eye.

Here are the most widespread doomsday theories—and how they fail to jell:

■ **OTC mania is at hand?** Probably the most oft-cited bearish indicator compares trading volume on the New York Stock Exchange with the NASDAQ over-the-counter market. The rationale is that when trading in small, speculative, OTC stocks begins to overtake NYSE volume, there's trouble afoot. Since OTC volume has exceeded NYSE volume for 8 of the past 12 weeks, some argue that the party is over. "This is an old market. The rally began in October, 1990, and has grey hair at this point," says one leading bear, Bernadette Murphy, director of technical analysis at M. Kimelman Co.

But OTC volume is a misleading and outmoded indicator. To begin with, the NASDAQ's volume is actually running behind its year-ago level, while NYSE volume has pulled ahead. But even if OTC trading really were all that hot, what of it? OTC volume is not synonymous with speculation any more, because of the growing number of large companies whose shares trade over the NASDAQ national market system. NASDAQ volume is concentrated in the 20 largest-cap stocks—institutional favorites such as Microsoft Corp. and Intel Corp., which are drawing money away from the NYSE-listed IBM. "If NYSE volume was not increasing at the same rate as NASDAQ volume, I might view it more seriously—but that's not the situation, so I'm n alarmed," says Andrew Addison, a tec nician and newsletter editor.



Does a chart showing 'three peaks followed by a domed house' mean the market is headed for the cellar?

■ **Is the market out of breadth?** The re soning here—thematically contradicto to the OTC-mania hypothesis—is that t market is in trouble because there is enough enthusiasm. And it's certai true that the Dow isn't showing mu momentum and is just trudging alo from day to day. Techies read this as lack of breadth and note that few stoc are reaching all-time highs or exceedi their 200-day moving average.

Dissenters among technicians poi out that the 30 stocks in the Dow ha rarely been less reliable as an indicat of big-stock strength. That's a result the poor performance of a number Dow components, such as IBM and, r cently, Merck & Co. In the weeks sin the market trough in October, the Do has meandered off on its own, while ot er large-cap indexes, such as the Russ 1000 and the Standard & Poor's 5 stock index, have forged ahead (chart

Another reassuring breadth gauge the strength of individual stock secto Industry groups are forging ahead on broad front, and that bodes well for t market. Ralph J. Acampora, chief techn cal analyst at Prudential Securities In notes that some 70% of all groups a showing strong price and volume mov ment—still not bullish enough to in cate speculative excess. He is also rea sured by high mutual-fund cash leve and surveys that show widespread bea ish sentiment among market pundits.

■ **Cycles: Scary or meaningless?** Sto market cycles are closely watched by coterie of investors, particularly futur and options traders, and the cycles a looking ominous. Cycle-watchers ma tain that the price charts show a class pattern of "three peaks followed by domed house." Translation: Get ready visit the cellar. Peter Eliades, editor *Stockmarket Cycles*, believes that t Dow may well fall to as low as 2400 as little as four months.

The glaring weakness of the cycle a gument is that cycles have failed utter to predict the market for years. Indee Eliades' newsletter, while predicti doom, also notes that the newsletter h been "increasingly negative since 19 and especially since October, 1989." other words, the cyclists have been pe simistic during the entire post-crash b market. Even "a broken clock is rig twice a day," sniffs Mark Liebovit, e tor of *Volume Reversal Survey* newsl ter. It doesn't take much chart-gazing figure out that, this time around, t gloom-and-doom technicians are going get their clocks cleaned.

By Gary Weiss in New Yo

WANT TO BE THE BANKS' /ORST NIGHTMARE'

ıusing activist Bruce Marks homes in on unfair lending practices

he offices of the Union Neighborhood Assistance Corp. don't look threatening. A few desks occupy eral sparsely decorated rooms in a ovated townhouse in Boston's South l, and big picture windows overlook a tling residential street. But this int setting is headquarters for one of banking industry's most dangerous mies: UNAC Executive Director Bruce cks, a housing activist and self-debed "bank terrorist." Says Marks: "I ıt to be the banks' worst nightmare."

'or some New England banks, has been. Partly as a result of probes of their activities, six w England banks have agreed pay more than $86 million to ıpensate borrowers saddled h excessively expensive second rtgages and to increase the ıilability of credit in poor ghborhoods (table). Says Rich- F. Syron, president of the leral Reserve Bank of Boston: don't agree with him on a lot things, but he's an articulate kesman for his cause."

L PULL. Bankers outside New gland, beware. Marks is taking aggressive campaigns nation- NationsBank Corp., which retly acquired Chrysler Corp.'s sumer credit business, is his t target. Marks accuses the ex-Chrysler subsidiary of unfair lending practices similar to Fleet's. Chrysler says the allegations are based on "isolated incidents." Marks is forging ahead regardless. He next plans to attack companies in Jacksonville, Fla., Pittsburgh, Hartford, Phoenix, rural Texas, Los Angeles, Detroit, and New York.

Marks has influential fans. Representative Joseph P. Kennedy II (D-Mass.), the new head of the House subcommittee on consumer credit and finance, is a staunch admirer, and Kennedy is now considering laws to combat discriminatory lending in poor neighborhoods. The issue has also caught the attention of Senate Banking Committee Chairman Donald W. Riegle Jr. (D-Mich.), who is planning hearings in February on home-mortgage discrimination.

MEAN BACKHAND. Marks's background is not what one might expect. Now 37, he grew up in affluent Scarsdale, N. Y., and Greenwich, Conn., and taught tennis at country clubs. His interest in community work started in college, when he volunteered for neighborhood development work in Brooklyn. Then, "to know the enemy," he says, he got an MBA at New York University and worked at the Federal Reserve Bank of New York evaluating merger applications. His activist life began in 1985 with a volunteer job at Boston hotel workers' Local 26, a notoriously militant union where he learned organizing and negotiating tactics.

His first bank attack came in 1991, when Fleet Financial Group Inc. was buying the failed Bank of New England. Marks tried to derail the deal on the grounds that Fleet's low-income lending record violated federal regulations. During a meeting with Fleet executives, regulators, and city officials, Marks said he would forget all about it if Fleet kicked in $20 million to a low-income housing fund. Fleet refused, and Marks said he would make the bank regret it.

He did. He investigated alleged lending abuse by examining public documents and contacting local lawyers, then organized borrowers to protest. With real victims ready to back his claims, he built support among activists, lawyers, and officials, then pushed for publicity.

Partly because of Marks's agitating, Fleet has agreed to pay $23 million in settlements related to second mortgages it bought from private inner-city lenders in Boston. Marks's research on Fleet also helped uncover hundreds of high-interest mortgages in Atlanta, and the bank is now defending itself against a class action charging that the loans were usurious.

Some of Marks's claims are overblown, notably his assertions about the number of victims of second-mortgage abuses in Boston. His enemies include not just bankers but fellow housing activists who find his tactics too abrasive. "He doesn't work well in a coalition effort, and he has no accountability to anyone but himself," says Willy Jones, an activist in Boston's Roxbury section.

Marks's tactics may be irritating to some, but the friction that he is creating hasn't slowed him down yet.

By Geoffrey Smith in Boston

MARKS HITS HIS TARGETS

Settlements of charges of unfair lending practices

Bank	Payment Millions	Purpose
FLEET FINANCIAL Atlanta	$40	Compensate overcharged borrowers
FLEET FINANCIAL Boston	$23	Compensate borrowers, funnel credit into low-income areas
BAYBANKS Boston	$11	Refinance high-cost loans, provide low-rate loans and affordable housing
SHAWMUT NATIONAL Boston	$7	Finance low-rate loans, refinance high-cost second mortgages
USTRUST Boston	$5	Provide low-cost home and minority business loans

DATA: MASSACHUSETTS ATTORNEY GENERAL, FLEET FINANCIAL GROUP

PHOTOGRAPH BY BRIAN SMITH

BY GENE G. MARCIAL

'I HAVE TWO WORDS FOR YOU, BENJAMIN —PLASTIC POWDER'

Savvy investors scouting for ways to play the jump in industrial activity as the recovery picks up aren't rushing into the big manufacturing giants. Instead, they're snapping up shares of small companies in certain niche businesses that cater to the industrial behemoths. The reason: They want to stick with the currently flourishing small-cap stocks.

One company that has attracted such smart players is Wedco Technology, which custom-grinds plastics and certain heat-resistant materials for chemical and other industrial companies. Wedco's shares have been on the rise of late. Trading as low as 8 in November, the stock closed at 11½ on Jan. 20.

Despite the rise, some pros believe Wedco is still way undervalued. "The stock is trading at low multiples when measured against most valuation standards," says analyst Harit Jolly of Thomas James Associates in Rochester, N. Y. He notes that Wedco's stock is trading at around 11 times his earnings estimate of 93¢ a share for the year ending Mar. 31, 1993, vs. fiscal 1992's 66¢. Jolly expects earnings to climb to $1.35 next year. Moreover, the stock is trading at only five times cash flow and 1.5 times book value.

TESTING THE WATERS. But there's a far more intriguing reason behind the recent buying in Wedco: takeover rumors. Some chemical companies are believed to be eyeing Wedco, and rumors are that feelers have been sent to Chairman, President, and CEO William E. Willoughby, whose family controls about 45% of the stock. One director, Fred Feder, owns an additional 10%.

Willoughby, who founded the company and is now in his early 70s, has told close friends that he wouldn't mind selling his stake in the company. Several of those interested in Wedco are among its major customers, says one Boston money manager, who believes the stock is easily worth 20 a share. "But I expect the company will be bought out sooner than later," says this pro, who thinks a buyout price in the mid-20s is likely. He recalls that Willoughby has talked about wanting to retire and spend more of his time fishing. Willoughby didn't return calls.

WEDCO TECHNOLOGY: REACHING FOR A NEW HIGH

DATA: BRIDGE INFORMATION SYSTEMS INC

Wedco controls about 70% of the domestic plastics pulverizing and processing business. That accounts for 71% of earnings. Some 26% comes from its Wedco Holland subsidiary and another 3% from its Wedco UK unit.

Wedco grinds virtually all types of plastics, such as polyethylene and polycarbonate, into powder. Powdered plastic is used in the manufacture of paints, metal, and heavy-fabric coating, and in certain chemical processes. Wedco also manufactures and sells the equipment it uses for grinding plastics.

RENO AIR: UP AND CLIMBING

Who's afraid of airline stocks? Not the brave souls who put their money into Reno Air, a startup airline that—believe it or not—has successfully capitalized on the current glut of airline capacity to sustain a low-cost operation. As a result, Reno Air's shares, which trade over the counter in "units," have been flying high. Each unit represents two shares and a warrant to buy another share at a fixed price. Initially offered at about $6, the units now trade at $20 each.

"Based on our forecasts related to Reno Air's expected growth, we expect the unit price to climb to $36," says Daniel Hersh, formerly with Kemper Securities and now an independent airline industry analyst based in Denver. He concedes that investing in a startup airline is risky, but "the risk is compensated by potential returns of 50% in price by yearend 1993 and 100% in 1994," says Hersh.

The scheduled and full-service airline, which operates five MD-80 jet uses Reno, Nev., as its hub and mak daily round-trip flights to Los Angele Portland, San Diego, San Francisc and Seattle. Its fares are cheap: round-trip flight between Reno a San Francisco is $80 (14-day advan purchase), vs. a fare of $180 in oth commuter airlines. The bulk of Re Air's passengers are skiers and peop who trek to Reno-Lake Tahoe for i gambling casinos. The airline plans add five planes this year and anoth five in 1994. Hersh sees earnings of a share this year and $1.50 next yea vs. a loss last year.

Mark Lebovit, who edits the mark newsletter *Volume Reversal Surve* is also high on Reno Air. "Technicall if the unit clears the 24 to 29 range, has a shot into the 40s or 50s," he say

NOW, BLUE-CHIP INFOMERCIALS?

Infomercials, those 30-minute co mercial shows Cher and Ross Per have made popular, are gaini some respect—and so is Regal Comm nications, their largest distributor. B not on Wall Street: Regal has mea dered between 3 and 4½ a share in t past 12 months. But that may chan soon, because several of the natio biggest companies will start doing inf mercials via Regal. Whispers are th such corporate biggies as Upjohn, IB and Chrysler have signed up.

This will be the first time that maj corporations will use the infomerc format to promote and market th products. Regal purchases time both cable and network television market a range of consumer produc and services, including housewar beauty aids, and kitchen appliances.

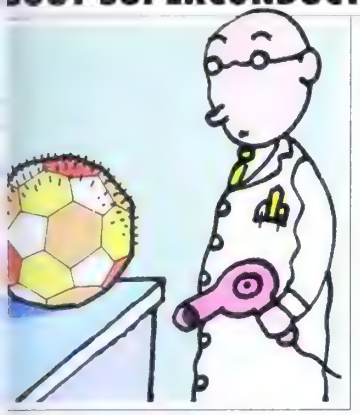
The company's infomercials usual devote 30 minutes to a single produ for which Regal obtains exclusive and marketing rights. It concentrat on the top 100 U. S. markets, whi reach about 85% of the nation's tele sion sets.

Joel Tillinghast, portfolio manager the $2 billion Fidelity Low-Priced Sto Fund, is one of the bulls on Regal. H earnings estimates of 70¢ a share f 1993 and $1 next year don't include a contributions from the business th the blue-chip clients will bring in. T linghast, who has acquired a 6% sta in Regal for his Fidelity fund, thin the stock could triple in 12 to months—if Regal Chairman and C Arthur Toll meets his goals.

evelopments to Watch

TED BY EMILY T. SMITH

HAIRY TALE BOUT SUPERCONDUCTIVITY



In 1985, chemists at Rice University announced a new carbon form: soccer-ball shapes they dubbed "buckyballs." The discovery touched off a spate of research exceeded only by that following the discovery of "warm" superconductors in 1986.

Last year, the two efforts converged. Researchers at AT&T Bell Laboratories discovered t combinations of buckyballs and metal atoms become suconductors at warm temperatures. In fact, the supercon-:ting threshold rises with each additional metal atom that's mmed between the carbon balls, raising the odds of finding m-temperature superconductors. There's just one hitch: The :tures go poof when exposed to air. Last month, research- at the University of North Carolina at Chapel Hill anmced that buckyball hybrids can be protected from decomition with a "fur coat" of polymer. The UNC scientists have wn polystyrene whiskers on buckyballs. Next comes deterning whether the whiskers affect superconductivity.

GHT-POWERED COMPUTERS? IDDENLY, A RAY OF HOPE

'or years, computer researchers have been chasing the elusive goal of a computer powered by light instead of elecity. By avoiding the electrical bottlenecks in a conventional con-chip machine, such an all-optical computer could bring a nt leap in speed and performance. Two years ago, research- at AT&T Bell Laboratories built an optical-processing unit able of doing simple calculations. Now, engineers at the iversity of Colorado at Boulder have taken another big step: structing the first general-purpose optical computer.

'he machine uses an array of lasers and devices that perm computer logic by switching light beams from one path another. But the "real breakthrough" in this device is its ical storage, says Colorado computer engineer Harry F. dan. Its predecessor wasn't a fully optical computer bese it relied on electronics for memory. In the new computer hitecture, data and computer instructions are stored as it pulses that continually zip through loops of optical fibers. s machine can be programmed for simple multiplication and ision, but the researchers envision its first use as a high-ed switching system for telecommunications networks.

EEP YOUR EYE ON THE ROAD -YOUR RADAR EYE

Many traffic accidents are caused by poor visibility or inattentive drivers who collide with objects they don't . Auto makers hope to prevent some of those collisions with electronic eye that overcomes the weather-related limitas inherent in laser-based collision-avoidance systems.

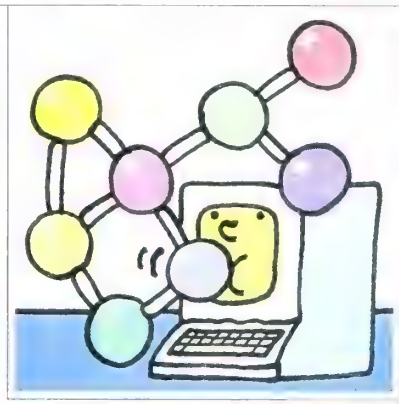
Vorking with Millitech Corp. in South Deerfield, Mass., carmakers are developing a system that combines a grill-mounted millimeter-wave scanner with an on-board microprocessor. The device, five inches in diameter, projects a focused beam about 200 yards in front of the car. When it spots a hazard, a light on the dashboard flashes, and an increasingly shrill alarm in the passenger compartment signals that the driver is approaching an obstruction. G. Richard Huguenin, president of Millitech, says the new instrument is 99% accurate in early tests. The warning system, due on the market within two years, will be sold as an optional safety feature. Ford Motor Co. and Daimler Benz are among the companies testing the new radar device, which will cost about $1,200 initially.

SCRUNCHING DIGITAL PICTURES DOWN TO MANAGEABLE SIZE

As video features start showing up in personal computers, demand for computer storage will skyrocket. That's because pictures use more memory than words—a few minutes' worth of color moving pictures is enough to swamp most laptop hard-disk drives. Magneto-optical (MO) drives boost storage capacity by combining features of magnetic recording with laser techniques used to produce music CDs. But these devices store only 128 million bytes of data each and take much longer than hard drives to find recorded information.

Advances by Japanese companies, however, could make MO drives the most popular storage system for digital video. Last December, Sharp Corp. unveiled a magnetic film that it claims will increase storage density to about 2 billion bytes of data. Then, Canon Inc. announced improvements that double capacity and can call text or images to the screen 10 times faster. It will be mid-decade before these improvements appear in commercial drives, but they will expand an already booming market. By the year 2000, predicts Japan's optoelectronic industry association, Japanese production of audio CDs and optical-storage systems for computers will quadruple.

NOW, CHEMISTS CAN GO MOLECULE-HUNTING ON-LINE



Chemists have a new shortcut to help them find useful chemicals. It's the Molecular Spreadsheet, a new product from Tripos Associates Inc., a St. Louis-based unit of computer maker Evans & Sutherland Computer Corp. The software helps organize reams of data at pharmaceutical and chemical companies by representing various molecules in terms of such measures as elasticity and shape.

Tripos hopes the spreadsheet will set it apart from its rivals in computational chemistry, Biosym Technologies Inc. of San Diego and Molecular Simulations Inc. of Pasadena, Calif. The ability to identify molecules with similar shapes is useful for locating "keys" that will have a biological effect by fitting into the receptor site of a human cell. Doing chemistry by computer isn't a substitute for lab work, but it could pay for itself by drastically cutting the odds of finding an effective drug or chemical, says Charles T. Casale, chairman of Aberdeen Group Inc., a Boston-based consulting firm.

SEMICONDUCTORS

THE COMING FIREFIGHT OVER FLASH CHIPS

U.S. makers dominate now, but Japan is gearing up for an assault

Heard this one before? An innovative semiconductor manufacturer invents a new chip. But rivals across the Pacific take over the technology, leaving the inventor with less than 2% of the world market. Familiar enough—except this time, the inventor is Japan's Toshiba Corp., while the clever copycats are Intel Corp. and other American companies.

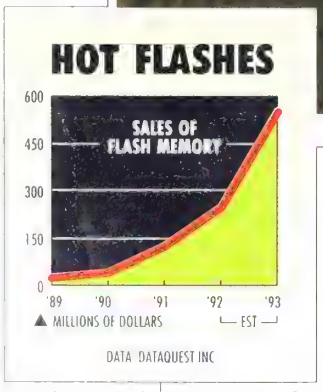
Intel and its U. S. brethren have a tiger by the tail with their surprising 95% domination of the market for Japanese-invented flash memory chips. Flash chips retain their memory even when a computer's power is turned off. What's more, unlike other chips that do this, flash chips can be easily erased and reprogrammed. So they're showing up in everything from portable computers to cellular phones to cockpit flight recorders. The flash market doubled, to some $240 million, last year, according to Dataquest Inc. (chart), which predicts sales of $2 billion by 1996.

GRAVEYARDS. Now, the question in Silicon Valley is whether U. S. companies can hold on to their early lead—or whether Japanese manufacturing prowess will win the day. The Americans look well-positioned. But Intel CEO Andrew S. Grove is cautious: "Corporate cemeteries are filled with people who defeated the Japanese and thought the job was done," he says.

Whoever wins, flash memories should become a mainstay of the semiconductor industry, along with dynamic random-access memory chips (DRAMs), whose 1992 sales were $8.7 billion. One reason: Simpler circuitry makes flash chips cheaper to produce in large volume. They will not entirely replace DRAMs, because they wear out after about 100,000 cycles of data input, compared with billions of cycles for DRAMs. But "by the end of this century," predicts Kaoru Tokushige, manager of Toshiba's flash-chip business, "flash will be as big as the DRAM market."

Indeed, flash chips are already replacing disk drives for handheld computers, storing software such as maps and airline schedules. They're also holding certain control software for fax machines and PCs, replacing non-reprogrammable chips. As their capacity grows, they will likely be used to hold a PC operating system, or basic software, and other programs—eliminating that annoying wait while programs load from a hard disk. Says Dataquest analyst Nicolas Samaras: "Flash comes close to the ideal memory."

SUNDISK'S HARARI: FLASH CHIPS HOLD DATA EVEN WITH THE POWER OF



Better design and marketing have made the market an American preserve. Because Intel's manufacturing partner, Japan's NMB Semiconductor Co., is late starting its flash production, Intel's share dropped from 86% in 1991 to 69% last year. The entire difference, however, was picked up by other U. S. producers, such as Advanced Micro Devices, Atmel, and startup Sundisk. Toshiba has about 1.5% of the market—and it's the biggest of the Japanese players.

The Japanese are planning a comeback, naturally. In March, Toshiba hopes to ship its first commercial chips, which store 16 million bits of data—twice Intel's biggest—and which can be reprogrammed 10 times as often. Toshiba's chips are going into an IBM flash card that will replace disk drives in notebook computers. Hitachi Ltd. has a new design that could lead to flash chips storing 64 million bits. In a few years, predicts one Japanese executive, "there will be only three [flash] chip companies, and none of them will be American."

YEARS OF INNOVATION. U. S. producers do have one Achilles' heel: the stratospheric cost of building plants for flash chips. They can cost $1 billion apiece. So the Americans are defraying expenses with transpacific tieups. Toshiba's allies include IBM and National Semiconductor. Intel is teamed up with Sharp Corp. and NMB. And Advanced Micro is starting a joint venture with Fujitsu Ltd. "Manufacturing will be dominated by Japan and Korea," says Sundisk President Eli Harari, whose chips are made by Matsushita Electric Industrial Co.

Still, American design skill counts for something. As long as the deals hold, U. S. chip-making companies should get half of the partnerships' output and thus keep half of the market for themselves. That's not bad. What keeps Americans in the game is that chip designs are still evolving unpredictably. "There's at least five to seven years of innovation left," says Richard D. Pashley, vice-president and general manager of Intel's Memory Components Div. After that, who knows?

By Richard Brandt in San Francisco with Neil Gross in Tokyo

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THE INDUSTRY NEEDS AN ALTERNATIVE' —BUT WILL IT BE NOVELL?

:O Ray Noorda is making lots of allies in a Microsoft-wary world

As December's tentative merger talks between Borland and Lotus demonstrate, software makers : getting a bit desperate in their at- npts to find ways to offset the over- elming power of Microsoft. The talks ne to nothing. But the fact that they ık place at all says a lot. Lotus Devel- nent Corp. and Borland International :. are bitter foes in the spreadsheet .rket, and their strong-willed chief ex- ıtives have displayed only contempt one another. These days, it seems, ɔple will go to extremes to create a w industry infrastructure as long as l Gates isn't the chief architect.

Ray Noorda has a none-too-modest ɔposal: Why not Novell Inc.? "The in- stry needs an alternative," he says. d the 69-year-old chairman and CEO of : Provo (Utah) software maker fig- es his company has the best shot. Un- e Borland or Lotus—with which it arly merged three years ago—Novell sn't been wounded in the blistering ıtest with Microsoft Corp. Those other npanies have lost market share to Microsoft's spreadsheet and data-base products. But Novell has faced down Microsoft and won.

Not only has Novell defended its position as the top seller of networking software, it has thrived. Revenues for fiscal 1992, ended last October, jumped 46%, to $933 million. This year, analyst Michael P. Wallace of UBS Securities Inc. expects Novell revenues to jump to $1.3 billion and predicts a 30% gain in net income, to $322 million. The company has more than $500 million in cash and only $500,000 in debt. Wall Street is so high on Novell that at 30, its shares now trade at a heady 36 times earnings—even higher than Microsoft's lofty multiple of 32. With 10% of Novell's stock, Noorda has now joined Gates in the billionaire's club.

A billion dollars would certainly make a nice nest egg. But Noorda says he's in no hurry to retire. Indeed, he's laying out his master plan to put Novell, not Microsoft, at the heart of the computer business. The premise is that the combination of networking software and operating system software will soon be the key infrastructure. Microsoft dominance stems from MS-DOS and Windows, operating software for stand-alone PCs. "I don't see a future in stand-alone computing," says John W. Edwards, 37, an executive vice-president at Novell. "Everything will be networked."

Novell, with more than 70% of the market for software that controls small networks of PCs, clearly has a head start. But only recently has Noorda been executing a comprehensive strategy of acquisitions, alliances, and new-product initiatives to, as he says, "accelerate the momentum of networking."

E PLURIBUS UNIX. Noorda's boldest move, the pending acquisition of American Telephone & Telegraph Co.'s Unix System Laboratories Inc. for $350 million in newly issued Novell stock, is only one in a series of recent actions to build that new industry infrastructure. The USL deal gives Noorda a time-proven operating system to go up against Microsoft's forthcoming Windows NT, which, like Unix, can be used on so-called serv-

NOVELL'S NEW INFRASTRUCTURE

ALLIANCES

th AT&T, developing software ink PC networks to corporate ıone systems. IBM began selling etWare in 1990, now accounts or 5% of Novell's sales. Devel- ɔped NetWare links to mainframes. Allied with Apple Computer and Go Corp. to develop software tying wireless devices to corporate net- works. Co-developing with Lotus a version of Notes "groupware" for NetWare. A technology project with Kodak could help speed photos and images across networks

CEO RAYMOND J. NOORDA

ACQUISITIONS

Purchased Digital Research in 1991. DRI's DR-DOS is a clone of Microsoft's MS-DOS operating system for desktop PCs. Recently inked deal to buy Unix System Labs and rights to the Unix operating system from AT&T

VENTURE DEALS

Novell has provided about $25 million in seed money to nine startups developing software for NetWare. Recent investments include HyperDesk and Beyond

PRODUCTS

NetWare Version 4.0, scheduled for shipment in March, is intended to help Novell move into bigger corporate networks. Will also have features for moving images across networks. In 1994, Personal NetWare, a set of graphical software, is expected to make it easier for office and mobile workers to negotiate far-flung networks

DATA: BUSINESS WEEK, COMPANY REPORTS

PHOTOGRAPH BY TIM HELY

er computers to parcel out software and data to networks of desktop machines. Microsoft Executive Vice-President Steven Ballmer says he's not worried but is preparing sales reps to field questions about Novell and Unix.

Noorda is now beginning a pincer movement: From below, Novell is upgrading its NetWare, which started out creating only rudimentary links among PCs, to take on more complex tasks. And from above, Novell will use the Unix operating system to bring applications that now run on mainframes and minicomputers down to powerful networks of workstations linked by Novell software. If all goes well, the combination of NetWare and Unix may create "a consistent architecture" that would be the foundation of Noorda's new industry infrastructure, says James F. Moore, a management consultant with Geopartners Research Inc. in Cambridge, Mass.

That would be a welcome change in the industry, according to some customers who are leery of simply buying Microsoft's next products. "The evolution of operating systems is too big to be left to a single company," says Mike B. Prince, director of information services for Burlington Coat Factory Warehouse Corp., a retailer that spends about $10 million annually on computers and software. "This competition brings about change for the better in the computer industry."

'COOPETITION.' Fear of Microsoft also helps Noorda make friends of foes. As a self-styled Mr. Nice Guy—compared with the hyperagressive Gates—Noorda is creating an impressive web of alliances (table) that could help undermine Microsoft. "All of us who compete with Microsoft are facing economic pressures of slower growth," says Lee Reiswig Jr., president of IBM's Personal Software Products Div.

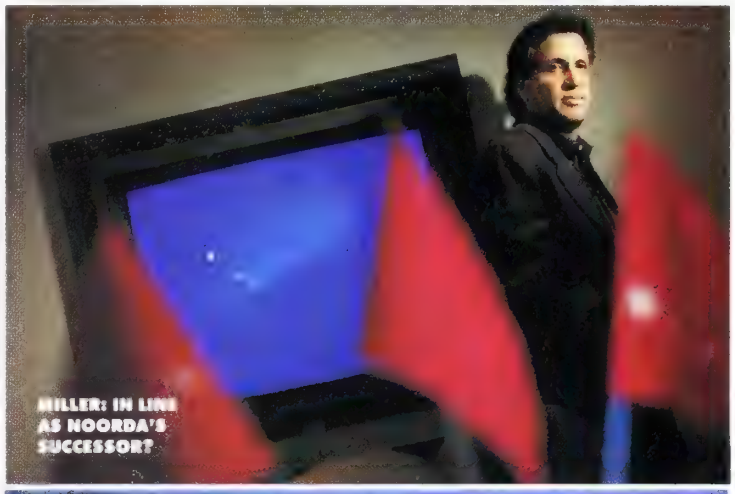
Often, what Noorda calls "coopetition" requires walking a fine line. For instance, even though Reiswig's unit competes with Novell by selling the OS/2 operating system and its own networking software, it's also the single largest reseller of NetWare. Even Sun Microsystems Inc.'s SunSoft unit, which now competes with Novell in selling Unix software, is open to some form of cooperation. Says SunSoft Vice-President Bill Larson: "We are optimistic about working with Ray."

So are other partners. With Apple Computer Inc. and pen software supplier Go Corp., Novell is beginning to sketch out plans for the emerging world of wireless communications. Edwards, who is in charge of that effort, says the objective is to create user-friendly software letting desk-bound workers, as well as customers carrying notebook PCs and handheld devices like Apple's forthcoming Newton, easily tap into networks and extract electronic mail and other files. Personal NetWare, a series of programs due in 1994, will let workers handle such chores by clicking on graphical icons, he says.

There are still lots of gaps in Novell's plans. Darrell L. Miller is the Novell executive vice-president in charge of filling them by forging ties with such companies as AT&T and Eastman Kodak Co. He also acts as a venture capitalist and has invested about $25 million of Novell's money in nine software startups. In return for seed money, the startups develop programs that work with NetWare. "All investments have development contracts tied to them," Miller says.

Take two recent examples. One is a 20% stake in HyperDesk Corp., a Westborough (Mass.) spin-off of Data General Corp. that has devised a scheme for parceling out objects, or prefabricated chunks of programming, across a network. Another deal is a less than [illegible] stake in Beyond Inc., a Cambridge start-up with software to help work groups manage electronic mail.

Back at Novell headquarters, nestled in the foothills of the Wasatch Mountains south of Salt Lake City, programmers are finishing a new NetWare for corporate-wide networks. Set for release in March after two years of work, NetWare 4.0 is intended to let companies link many different networks of PCs and tie them to minicomputers and mainframes. The new NetWare also lets users trade images, documents, and other complex files across a large enterprise with thousands of workers. Microsoft plans to offer such features around 1995, when its Cairo software is due.



MILLER: IN LINE AS NOORDA'S SUCCESSOR?

EDWARDS: THE FUTURE IS IN NETWORKING

The main risk at Novell continues to be the uncertainty of who will succeed Noorda as CEO of this increasingly complex business. For now, Noorda remains in charge and continues to resist publicly identifying a successor or even a clear second-in-command. If there's a favorite candidate among Novell's five top lieutenants, it seems to be Miller. He joined Novell in 1987 after stints with network hardware maker Ungermann-Bass as well as Digital Research Inc., which Novell acquired in 1991. Is the 34-year-old Miller ready to be Novell's president? "Well, how old is Bill Clinton?" he retorts.

Clearly, this long-term effort to create an alternate software infrastructure will outlast Noorda's tenure. "Noorda has made it a personal crusade to change the structure of the industry," says consultant Moore. But even if Noorda were to disappear tomorrow, his legacy is falling into place. The 3,600-employee Novell now has a sphere of influence that includes scores of hardware makers who use NetWare and hundreds of software makers who develop products that work with it. In addition, there's Miller's growing portfolio of investments in startups and Novell's relationships with some 11,000 small companies that install and service NetWare. Not to mention more than 20 million customers. Perhaps, if they band together, all these folks could hold Microsoft in check.

By Evan I. Schwartz in New York, with bureau reports

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AIRLINES

SHORT HOPS, SOARING FARES: HOW COMPANIES COPE

More business trips include cars, buses, private jets—and griping

Picture this: Your boss asks you to pay a call on a key customer a couple of hundred miles away. It's less than a four-hour drive from headquarters in Pittsburgh to Harrisburg, Pa., but time, as always, is of the essence. So you call your company's travel agent and ask for the cheapest flight. The current fare is $200 one way. That's nearly as much as it would cost you to fly from Pittsburgh to London, you say. Are you being gouged?

If it's any consolation, you're not the only one wondering that. Corporations around the country are discovering that fares on many short-haul flights—those under roughly 400 miles—are nosing into the stratosphere. And it's getting worse. The major airlines engage in all-out price wars on popular long-haul routes, but book a flight on such monopoly or thinly traveled routes as Corning, N.Y., to Philadelphia or Boston, and be prepared for sticker shock: Round-trip fares for those two destinations on USAir Inc. have more than doubled in the past two years, to $500. "We're a captive audience in a small community," says Bill Schultz, manager of aircraft operations at glass manufacturer Corning Inc. "We're basically held hostage."

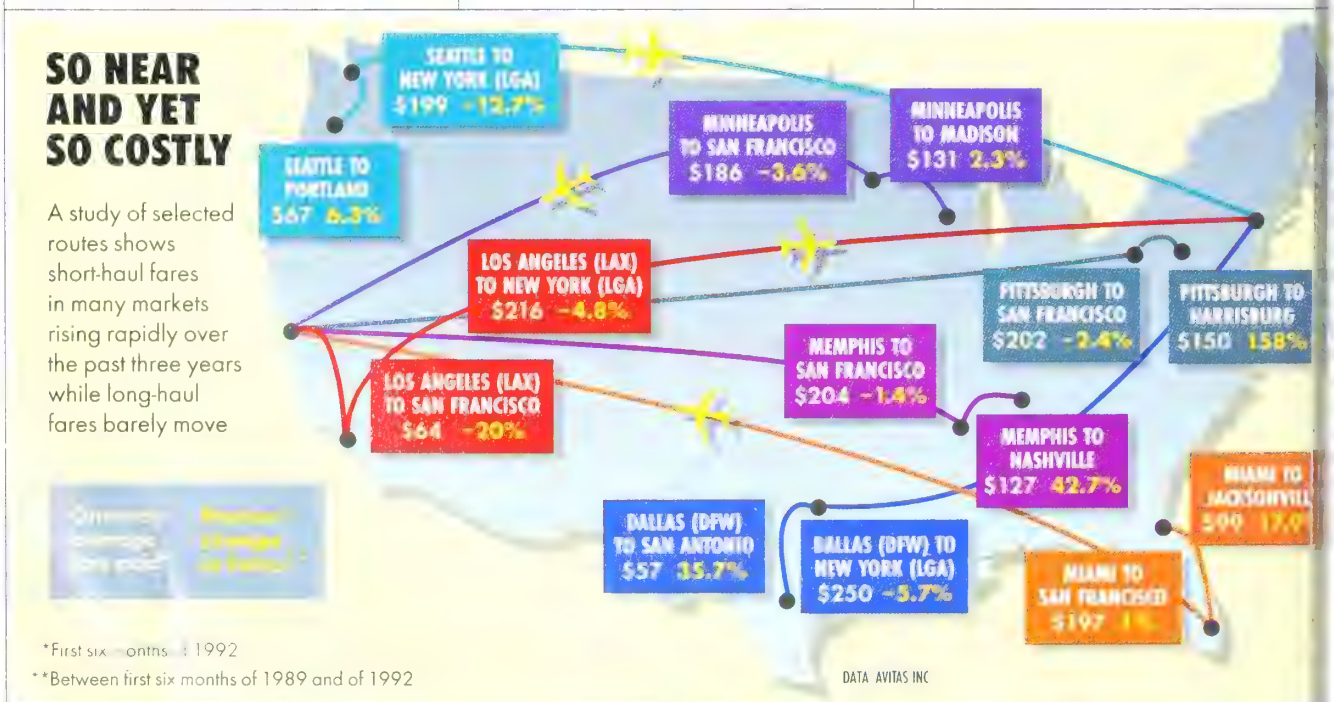
But Corning and others aren't sitting still. At many companies, executives are driving three hours or more rather than pay outrageous fares. Where destinations are too far to reach by car, some businesspeople are driving or riding buses to cities where fares are cheaper. Increasingly, corporations are leasing jets, or making the ones they already have available to more employees. Corning, which operates its own private business-jet shuttle from Corning to both Newark, N.J., and Wilmington, N.C., says it's now looking to expand its service to additional routes. And where solutions can't be found, some folks are simply hollering at the airlines for relief.

STAYING PUT. Short-haul fares have always seemed pricey compared with popular long-haul routes. That's because the expenses for any given flight are incurred mostly through airport fees and maintenance each time a plane takes off and lands. The number of miles flown contributes relatively little to cost, which makes short-haul flights inherently m[illegible] expensive on a per-mile basis.

But why are many long-haul fa[illegible] staying put while short hops keep [illegible] ing? It all boils down to attempts [illegible] make shorter routes profitable. The e[illegible] lation of fares on short flights is larg[illegible] attributable to three factors: a pre[illegible] regulation bias toward keeping sh[illegible] haul fares low, subsidized by long-h[illegible] fares; the disappearance of such ca[illegible] desperate carriers as Midway, Easte[illegible] and Pan Am; and low demand on m[illegible] of these routes. As for price-goug[illegible] airlines deny it, of course. And s[illegible] experts back them up. "Everybody's [illegible] picious of everybody in the pricing [illegible] anything," says Ed Greenslet, publis[illegible] of *The Airline Monitor*, which reviews [illegible] dustry financial trends. "But I d[illegible] think you will find any real gouging [illegible]

Greenslet and others argue that [illegible] pre-1978 bias toward keeping short-h[illegible] fares low is still being worked ou[illegible] the system. Even today, he says, [illegible] revenues airlines collect on many sh[illegible] routes are proportionally lower t[illegible] those on long routes. Greenslet [illegible] notes that in 1990 and 1991, several [illegible] ing carriers dragged down fares [illegible] many routes to generate revenue. [illegible] after these lines went under, surviv[illegible] shunned the inherently unprofita[illegible] routes. So the one or two carriers [illegible] maining on such routes are able to s[illegible] pushing prices toward profitable lev[illegible]

Airlines say it isn't that simple. T[illegible] argue that many passengers abo[illegible] short-haul flights are merely pass[illegible] through a carrier's hub on their wa[illegible]



g-haul destinations. These passengers
little more—or sometimes less—than
meone coming aboard at the hub. For
ample, it costs $465 to fly on Ameri-
Airlines Inc. from Chicago to Miami.
you can fly from Indianapolis to Chi-
o and on to Miami for $460.

It seems the only time fares on short
s come down is when a low-cost com-
itor is present. So while United Air-
es Inc.'s fare from Chicago to Minne-
olis was $255 on Jan. 19, United
rged just $114 to go the longer dis-
ce from Chicago to Kansas City, Mo.,
ere Southwest Airlines Co. competes.
That's the main reason some corpora-
s are literally going out of their way
fly on Southwest. That airline serves
tle Rock. So three years ago, a bus
called The Bette Bus popped up in
mphis to ferry travelers to the Little
k Municipal Airport so they could
e advantage of fares that are often a
rter of what they would pay in Mem-
s. Owner Bette A. Beem says her
es carry up to 500 passengers on
150-mile trip each week, and the
centage of business travelers riding
jumped substantially.

RAGED. Taking the bus all the way
y not be far off on some less-trav-
d routes. Major airlines find that
k demand in some markets makes
fitability impossible at nearly any
e. So they're moving out and letting
ional airlines take over. American
lines Inc. did that last year in San
e, Calif., subbing seven daily Ameri-
Eagle commuter flights for 10 daily
flights, and American is studying
er markets for similar moves. USAir
made similar changes in Baltimore
elsewhere. And in February, United
cut jet service from Washington
les International Airport to East
st cities by a third, letting commuter
iates with slower, more cramped tur-
rop planes serve those markets.

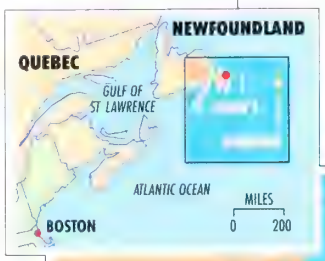
uch switches don't promise lower
es. The only way, short of persuad-
Southwest to come in—which 90 cit-
tried to do last year—seems to be to
plain. Last year, many businesses
vansville, Ind., became so outraged
n USAir's round-trip fare to India-
olis shot up to $300 from $171 that
sent a contingent to the airline's
dquarters near Washington, D. C., to
test. USAir, the only carrier serving
market, backed down. And USAir in-
duced a $200 three-day advance fare
n Pittsburgh to Harrisburg after a
up of local business leaders com-
ned. It doesn't always work. USAir
keswoman Susan Young notes that
ning tried a similar tactic, to no
l. Still, it never hurts to ask.

y Andrea Rothman in New York, with
hen Baker in Pittsburgh and bureau
rts

A SINKHOLE CALLED HIBERNIA

Ottawa's billions will keep the risky offshore-oil project alive

Remember the energy crisis? Canadian taxpayers are about to. Their government just gave a new lease on life to one of the last relics of the era when motorists lined up at gas stations and governments launched massive oil projects to promote energy self-sufficiency. On Jan. 15, Canada agreed to further subsidize the Hibernia project, which will drill in the oil-rich but iceberg-filled waters 200 miles off the Newfoundland coast. After years of wrangling and near-cancellations, it now looks as if construction will be done in time to start pumping oil by 1997.



Which raises one question: How big a boondoggle will Hibernia be? Producing oil in waters near where the Titanic sank will be one of the most costly and perilous projects ever. A huge platform—containing production facilities, accommodations for 280 workers, and storage for 1.3 million barrels of oil—will have to be anchored in 240 feet of water on a 60,000-ton steel-and-concrete base surrounded by an iceberg-deflecting concrete wall 90 feet thick. Most of the structure must be built on land, then floated out to sea. The partners expect to pour $4.1 billion into construction and another $11.3 billion into capital and operating costs from 1997 to 2015 to recover Hibernia's estimated 615 million barrels of oil.

SOUTHERN EXPOSURE. All this will drive the cost of Hibernia oil to about $25 per barrel over the field's life, including annual inflation. That's $6.50 more than today's $18.50 per barrel average oil price and five times the $5 per barrel most oil now costs to recover. Kidder, Peabody & Co. analyst Bernard J. Picchi calls Hibernia "the most expensive (major) oil project under way today."

Such difficulties and expense would doom most projects—and Hibernia did look dead for a while. Cash-strapped Gulf Canada Resources Ltd. is pulling out in the wake of the financial troubles of the Reichmann family, which controls it, and a yearlong search for oil companies willing to buy Gulf's 25% stake came up short. Ottawa saved the day by agreeing to pay $226 million for the 8.5% of Hibernia that couldn't be sold—on top of $2.1 billion in grants and loan guarantees it pledged in 1988. Arkansas-based Murphy Oil has signed a letter of intent to pay about $200 million for 6.5%, and existing partners Mobil and Chevron put up $150 million each, to increase their positions by 5%, to 33.1% and 26.9%, respectively. Government-controlled Petro-Canada will stay at 25%.

Industry Minister Michael H. Wilson praises Hibernia as a "visionary project" that will compare to the transcontinental railroad. And the government hopes it will spark development of other oil fields in the vicinity, creating a mini-North Sea off Newfoundland's shores.

Ottawa's immediate motivation for

keeping Hibernia alive, however, is pork-barrel politics. Political analysts think Prime Minister Brian Mulroney feared that halting Hibernia now—after the government and companies have spent some $800 million on it—would be a mortal blow for depressed Newfoundland. Unemployment there soared to 21% following the federal government's decision last summer to suspend most of the province's cod-fishing operations to let fishing grounds recover from overharvesting. With national elections looming later this year, Mulroney couldn't afford to lose Newfoundland votes by letting Hibernia die.

For their part, Chevron, Mobil, and Murphy claim they will make money from Hibernia despite its huge cost. It's "a good project that will provide a positive financial return," says Jerry King, chairman of the Hibernia Executive Committee, the consortium set up to run the project. But industry watchers suspect that Mobil and Chevron are going ahead mainly because they've sunk hundreds of millions in the project already—and because the government is shouldering so much of the expense. Arne Nielsen, retired chief executive of Mobil's Canadian unit, says the project would have died in 1988 if the government hadn't stepped in. "It wasn't economic for the oil companies to proceed without government money," he says.

DANGEROUS PASSAGE. Even today, there are doubts about the project. The partners will make only "the smallest of profits" if any, Picchi contends. Indeed, Petro-Canada says it would eventually like to reduce its stake if a buyer can be found. And the government is picking up Murphy's share until the company can complete due diligence studies of Hibernia's feasibility.

Plenty of risks have yet to be surmounted. The government concedes the possibility of a "catastrophic accident" as the platform is towed to sea in 1996. Once in place, the partners claim, it will be environmentally safe. But even if Hibernia withstands icebergs, its oil must be shipped out by tanker, raising the specter of spills. And a 1991 government report called the Newfoundland coast, which is rich in marine life, the area in Canada most vulnerable to spills.

Of course, Hibernia's risks could look a lot more worthwhile if oil prices soar by 1997. But most analysts don't anticipate that. In the meantime, Hibernia "is hardly a bonanza" even for Newfoundland, says Fred Morley, an official with Canada's Atlantic Provinces Economic Council. The project has created only 2,300 jobs so far, although it is spawning hundreds more in related industries. At this rate, it could be Canada's most expensive job program ever.

By William C. Symonds in Toronto

SOFT DRINKS

PEPSI'S FUTURE BECOMES CLEARER

Crystal Pepsi may be the first step toward remaking the cola giant

For Craig E. Weatherup, CEO of Pepsi-Cola North America, the future of Pepsi-Cola seems perfectly clear. As clear as Crystal Pepsi, that is.

Weatherup, head of PepsiCo Inc.'s $6 billion flagship division since 1991, is overseeing the national rollout of Crystal Pepsi, a clear-as-water, caffeine-free cola. The brand is designed to secure a stronghold in the fast-growing arena of New Age beverages, which now have 2% of the soft-drink market. Backed by a $40 million marketing budget, including a teaser ad during Inauguration coverage and a $7 million dose of Super Bowl ads, Crystal Pepsi will be available everywhere in the U.S. by February. Weatherup's goal for Crystal: 2% of the $48 billion retail U.S. soft-drink market by the end of 1993. That would translate into roughly $1 billion in sales.

TRICKY MOVE. If Crystal Pepsi becomes a big beverage without cannibalizing sales of Pepsi and Diet Pepsi, the 47-year-old Weatherup will be a decorated hero of the cola wars. He might even get a shot at succeeding Chairman Wayne Calloway—especially since the front-runner for the job, Roger Enrico, chairman of PepsiCo's Frito Lay unit, is rumored to be a candidate for chief of American Express Co.

Crystal Pepsi is just one part of Weatherup's plan to transform Pepsi-Cola into a "total beverage company." Already under way are rollouts of an iced-tea line, tests with bottled water and another charge at the sports-drink market (table). Industry executives also think Pepsi could launch fruit-flavored Crystals. Such products could underprice and outflank the fast-growing Clearly Canadian lineup as well as Coca-Cola Co.'s new Nordic Mist waters.

Ambitious stuff. And Weatherup admits that the PepsiCo board could get nervous as Pepsi-Cola rolls the dice. The products even he acknowledges are far from sure bets. "There are the stick-in-your-knitting questions like: 'How can you afford to dabble in juice and tea?' So why try? Especially now, when Weatherup is also imposing a detailed restructuring of Pepsi-Cola that will

PEPSI POURS IT ON

Pepsi-Cola's new products

CRYSTAL PEPSI Color-free cola is going national in January. Coca-Cola is rolling out Tab Clear

LIPTON ICED TEA A joint venture in brewed ready-to-drink iced tea. Rolling out nationwide, battling Snapple, and Coke's and Nestlé's Nestea

OCEAN SPRAY Juice in single-serving cans and bottles distributed by Pepsi

ALL SPORT A Gatorade wannabe. Being rolled out nationally. New TV ads expected in April

H2OH! Bottled you-know-what. Twice tested at a premium price, now being pitched as water for the masses

AVALON A Canadian water, distributed in the U.S. by Pepsi

DATA: COMPANY REPORTS

ninate a layer of management and ılt in a fourth-quarter charge of $125 lion?

t's a simple answer. Growing legions onsumers are turning away from tra- onal soft drinks. Cola's total share grocery stores—now about 60%—has n slipping, while Snapple Juice Co., arly Canadian Beverage Corp., and er noncola companies are taking off. a-Cola is expanding its offerings, too, h its iced-tea venture as well as a ır version of its venerable Tab. So time to pour on the new products ore Pepsi gets swamped.

By sticking his neck out, Weatherup ıcting in the Pepsi tradition. While g Coke dominates Pepsi in most mar- s, "Pepsi tends to be a lot more free- ıking and willing to make errors," s Tom Pirko, a beverage industry sultant in Los Angeles who has ·ked for both companies. "And they e made some very good errors."

Weatherup himself stubbed his toe in 1989 when he came up with Pepsi a.m., a low-carbonation, extra-caffeinated cola intended for the

akfast market—and rejected by it. also tried a version of Mountain Dew ıed at Quaker Oats Co.'s Gatorade, y to be flattened in test markets by original.

What everyone wants to know is ere Crystal Pepsi will end up in Pep- history of hits and misses. After rket tests last fall, Crystal Pepsi had .5% share of the soft-drink market in las/Fort Worth, a 1.9% share in Den- , a 0.4% share in Grand Rapids, and .3% share in Providence, according Jesse Meyers, publisher and editor of *Beverage Digest*. "These represent excellent introductory numbers," says Meyers. "The question is will they continue? Remember that Slice also had wonderful numbers to start."

Slice, Pepsi-Cola's foray into fruit-flavored sodas, was once hailed as a breakthrough but is now an also-ran. Its precedent makes some bottlers wary about Crystal. "I'm more excited about our other products than I am about that, frankly," says James C. Lee Jr., chairman of Buffalo Rock Co. in Birmingham, Ala., a distributor of a number of Pepsi products.

BRAND LARCENY. Yet some bottlers do report promising responses to Crystal. Says Carl G. Behnke, president of ALPAC Corp. in Seattle: "We started selling it in vending machines in mid-December, and there has been tremendous excitement from our retailers." Jules Rose, chairman of Sloan's Supermarkets Inc. in Manhattan, is more impressed with Crystal Pepsi than he is with Tab Clear. Observes Rose, "Tab Clear is in our stores, and it's not selling. A retailer sees a tentativeness on the part of Coca-Cola," since it's using a virtually defunct brand for its clear offering. Pepsi, on the other hand, is gambling the Pepsi trademark on Crystal. A Coca-Cola spokesman says Tab Clear, positioned as a mainstream caffeinated soda, not as a New Age drink, is testing well.

Weatherup is hedging his bets on Crystal by pursuing other beverage categories. Last year, he teamed up with both Ocean Spray Cranberries Inc. and Thomas J. Lipton Inc. The cola titan now distributes single servings of Ocean Spray juices in stores and vending machines. It also makes and ships Lipton iced tea that is brewed rather than reconstituted from instant. Pepsi's objective is to capture a share of the 1.5 billion cases of iced tea it figures are brewed at home every year.

Of course, Snapple was there first. A $200 million company that recently went public (BW—Jan. 18), Snapple is the No. 1 iced tea in New York City and is aggressively expanding nationwide. But that doesn't bother Weatherup, since his plan is to use his distribution forces to muscle in on Snapple. "I'm very much in the camp of thinking stealing ideas is one of the most honorable things you can do," he says. Coke apparently thinks so, too: In 1991, the Atlanta-based company formed a partnership with Nestea to distribute iced tea in bottles and cans.

And despite past failures, Pepsi is still hoping to score in the sports-drink business with its new All Sport. Weatherup hopes the brand will eventually take 20% of the sports-drink, or "isotonic" market. That's yet another daunting task: Gatorade already owns 90% of the market. And Coke, in the midst of testing Power Ade, is striving for a 20% share, too.

Pepsi is even testing the waters in waters. It's now repositioning its H2Oh! brand and trying out Avalon, a Canadian noncarbonated "still" water. Pepsi tried twice to market H2Oh! as a high-end, Perrier-like bottled water, but Weatherup says the name and packaging pegged it as a "blue collar" offering. Still, don't expect to see your local deli packed with Pepsi water anytime soon.

Neither H2Oh! nor Avalon has better than a 50-50 chance of making it, Weatherup admits. But he insists Pepsi-Cola will ultimately be a major player in the $1.5 billion bottled-water business.

Weatherup readily confesses that 'stealing ideas is one of the most honorable things you can do'—even though Pepsi is known for its risk-taking culture

Meanwhile, Pepsi and Ocean Spray are planning to introduce a joint brand, possibly a sparkling fruit juice, by the second quarter of this year. And Pepsi isn't about to give up on products that failed. Jake's, an aborted attempt to market a cola with half the calories of regular Pepsi, may eventually be relaunched—as might Weatherup's personal flop, Pepsi a.m. As Weatherup sees it, he's in the risk business as much as the soft-drink business. This year, Pepsi-Cola is in both businesses in a big way.

By Laura Zinn in Somers, N.Y.

EDITED BY AMY DUNKIN

Finance

BEYOND THE TOOTH FAIRY: MONEY BASICS FOR KIDS

"They put the full $100,000, plus margin, into just three stocks. One started declining, so they cashed out and put the proceeds into the big winner: MTC Electronic Technologies, which they bought at 6⅞. It went up to 27½. Thanks to that move, the portfolio was worth $350,264 and change after 10 weeks."

A grateful client talking about his brilliant money managers? No, this is Paul Noack, an economics teacher at Marquette High School in Milwaukee, describing three seniors under his tutelage. The boys were playing the Stock Market Game, an educational competition sponsored by the Securities Industry Assn. (SIA). The trio beat 2,300 other Wisconsin teams this fall and won a trip to New York City, where they toured the exchanges and hobnobbed with market specialists. Says Gloria Talamas, who directs the game for the SIA: "We want young people to understand how the market system works."

Even if you don't relish the idea of your children as stock-picking tycoons, most parents are concerned about teaching kids the principles of sound money management. Knowing the value of a dollar at an early age is more than just a safeguard against becoming spoiled. Parents who foster good habits, such as careful spending, regular saving, and long-term planning, equip their kids for a lifetime of financial ups and downs.

WORK-FOR-PAY. Children are ready to learn about dollars and cents around the same time they master basic counting skills, usually by age three. Picture books and play money can help teach how bills and coins are denominated. If parents then point out at the supermarket that real money can be changed not only into itself but also into things like juice and cereal, kids grasp the concept of legal tender.

In fact, Neale Godfrey, creator of the First Children's Bank at toy retailer FAO Schwarz and author of *The Kid's Money Book* (Checkerboard Press, $12.95), a question-and-answer guide to banking, credit, and the stock market, says three-year-olds are not too young to earn an allowance and make spending decisions. "Kids are born with the 'I want, I want' syndrome," she says. "You have to teach them there's no entitlement program." Godfrey says kids should be paid for extra household chores, and in amounts that buy something. Letting them make purchases—taking into account restrictions on chocolate or BB guns—teaches children that money creates choices and that they're responsible for choosing well.

Kids who earn their spe ing money learn the im tance of work-for-pay. But should also teach them the wards of deferred gratif tion: how setting aside a allowance for three weeks them buy a bigger toy tha they spent the money r away. "This is a huge less says Godfrey. The earlier learn the discipline of sav the easier they'll find it la in life. One comprehensive source for parents is *Mo Skills: 101 Activities to Te Your Child About Money* Bonnie Drew (Career Pr $9.95). Games and activi are organized at three le ing levels for ages 3 to 12

A bank account and s ings passbook encour young children to man their resources responsi Institutions with relativ low minimum balance requ ments, such as credit un and regional savings ba are the best bets for be ners' accounts. Urge your to salt money away regul even if it's only a few dol a month, and explain how bank pays for use of t money in interest. Most dren get excited when t see their funds grow.

Once they start school become sensitive to so status, kids need to lea more subtle lesson about ey. While it's common for dren who have just un stood the notion of monet value to become obses with what things cost, ents need to emphasize "cost" and "worth" are synonymous. Mary Su Miller, education expert author of *The School B* calls this "keeping mone its place."

Many eight-year-olds ready to broaden the pic

ow money works in world. Unfortunate- economics is seldom ht in the classroom. ew popular board es may help children p the basics of sup- nd demand, but not out a little parental ance. For example, ss you explain why ng up an entire hborhood allows a estate investor to ge high rents, the ved Monopoly is just xercise in greed.

D DEEDS. Another sic, The Game of is more self-explan- y. Players decide ther to go to college egin a career right high school, wheth- nd when to marry procreate, and how pend their loot. "It s kids a concept of financial challenges face," says Milton dley spokesman k Morris. Players by accumulating the t wealth—but that n't mean the most . The game was up- d last year with "life ," that award mone- credit for good ds. Again, parental mentary will en- e the game's educa- al value.

ike adults, kids dis- varying degrees of rest in being their bosses when it es to earning mon- While some may be py to work a paper e or paint neighbors' es, others can't wait o into business for nselves. If your chil- n show signs of entrepren- ship, educators say you uld encourage them with- allowing money-making to sume their time complete- f you own a business and e to pass it on, you may t to give your kids fairly ponsible jobs that make n proud of their stake in a g-lived enterprise.

Two useful books for bud- g business owners, Terri mpson's *Biz Kids Guide to Success* (Barron, $4.95) and Linda Menzies' *A Teen's Guide to Business* (MasterMedia, $7.95), give step-by-step instructions on turning ideas into actions, getting seed capital, and even writing a business plan. Thompson's book includes worksheets and a glossary; Menzies' also covers job-hunting.

A hands-on way to introduce children to financial markets is to make them a present of several shares in a company they know and like. You can explain to a fashion-conscious daughter in junior high that she now owns a small piece of The Gap, for example, and gradually clarify the link between the retailer's profitability and her stock's value. When she wants to know how Gap shares are doing, teach her how to look up prices in the financial pages. When The Gap pays a dividend, explain the benefits of reinvestment.

TANDY TREAT. Stock in companies that reward shareholders with discounts, coupons, or gifts along with dividends make especially attractive first investments for kids. For instance, Wrigley mails its shareholders a 100-stick box of chewing gum every December. Likewise, owners of Tandy stock get a 10% yearend holiday price break at Radio Shack, whose battery-powered games and toys are popular with children.

Games that replicate the way markets work may sound advanced for a beginner. But the SIA's Talamas says that even fourth-graders play the Stock Market Game in the classroom. Teachers help teams of three to five children pick stocks by asking them what they drink in the morning or which videos they like best. Players are encouraged to watch nightly business shows on TV and to follow general news. As they track their portfolios over the 10-week game period, they quickly learn how the market responds to different stimuli.

The three winning seniors from Milwaukee were first-time players—in their first economics course. "Mr. Noack said we should look for stocks trading between 5 and 15 in a shallow, speculative market," says team member Richard Thickens. They picked MTC when they read that the electronics company had a jump on cellular-phone business in China. While the boys are proud of their success at the game, none says he intends to pursue a career on Wall Street. But when the time comes for them to invest on their own, they'll be way ahead of the pack. *Joan Warner*

BUILDING BLOCKS OF FINANCIAL AWARENESS

PRESCHOOLERS	
MAGIC-MONEY MACHINE Fisher Price, $20.99	Like a miniature cash machine, with a keypad and tiny safe. Includes cash card, wallet, and play money
THE MONEY BOOK & BANK By Elaine Wyatt and Stan Hinden Tambourine Books, $11.95	A combination primer and interactive toy, with slots for coins and bills and easy explanations of how they're denominated
THE MONEY FACTORY Troll Learn & Play, $24.95	A battery-operated savings bank that displays, sorts, and dispenses coins
AGES 5 TO 12	
MADE FOR TRADE Aristoplay, $24	Players learn how the economy of a colonial town in New England worked
MALL MADNESS Milton Bradley, $30	Marketed to girls, this game encourages kids to shop around for sales and bargains
THE ALLOWANCE GAME Toys to Grow On, $14.95	The first to save $20 wins this board game, which simulates a child's cash flow: Mow the lawn, earn $2.25; overdue library book, pay 60¢ and lose a turn
THE GAME OF LIFE Milton Bradley, $13	An old favorite, updated last year to include nonfinancial factors. Now you get monetary credit for adopting twins or recycling trash
SOPHISTICATED GAMES	
A TRAIN Maxis, $69.95	A computer game for PC, Macintosh, or Amiga. If players run the railroad profitably, they can buy more businesses
PIT Parker Bros., $7.50	A card game. Players scream like commodities traders, trying to corner the market in wheat, barley, cocoa, etc.
STICK THE IRS Courtland Playthings, $12.95	Drill for oil, buy a baseball team, build ski condos, and get audited
STOCKS AND BONDS THE STOCK MARKET GAME Avalon Hill, $25 each	Board games that simulate the financial markets, in which you try to make a killing
YOU JUST BECAME A MILLIONAIRE Games Partnership, $24.95	Guess how other players would spend or invest a windfall, such as an inheritance

DATA: BW

Pets

IT'S HEALTH INSURANCE, FOR PET'S SAKE

Although we hear a lot more about skyrocketing health-care costs for humans, the price of patching up Fido's scrapes and Fluffy's broken paw has shot up astronomically, too. Veterinarians lament that many owners opt for euthanasia when faced with tabs topping $1,000 for such common maladies as broken bones and abscesses, let alone pricier procedures such as artificial joints and organ transplants.

But if you don't want cold, hard cash to stand between you and your animal's longevity, there is an option: health insurance. Two California companies, Veterinary Pet Insurance Co. (VPI) and Fireman's Fund Insurance Co., offer policies for cats and dogs. While they don't cover regular checkups, vaccinations, pregnancy, preexisting ailments, or congenital conditions, they do protect owners against big bills for accidents, broken limbs, and costly but common diseases such as cancer and diabetes—where treatment can easily run to thousands of dollars. With the insurance, "people can protect themselves and their animals in times of trauma or medical crisis," says New York vet Paul Schwartz, who estimates that 30% of his patients are covered.

ELDER CARE. Pet insurance has been around for years, but VPI and Fireman's Fund have recently stepped up marketing efforts with infomercials, direct-mail solicitations, and displays in vets' offices. Annual premiums range from $49 to $219, with deductibles from $20 to $300. The more expensive policies are generally for older animals or for plans that will pay more than $1,000 per injury or illness.

VPI is the largest provider, with 75,000 policies in force—up 25% from a year ago—and about $9 million in paid claims since 1982. National Casualty Co. underwrites VPI in every state except California, which places VPI under state conservatorship last year until it received a $2 million capital infusion. Fireman's Fund will divulge how much its Medipet plan has paid out in claims or how many policies it has sold, but it says the number of policies is up 44% from a year ago. VPI is available in 35 states, while Medipet is sold nationwide. A. M. Best Co. gives National Casualty an A– rating; Fireman's Fund gets an A.

For some, the cost of pet insurance is exorbitant. And the Humane Society of the U. S. has complained that the restrictions in the plans make them a value suspect. Then again, 10 years of premiums may not add up to the cost of treatment for one major illness or injury. For an animal lover, that may be incentive enough. *Elizabeth L*

PLANS TO HELP PAY THE VET

INSURER	ANNUAL PREMIUM	COVERAGE
FIREMAN'S FUND INSURANCE CO. 800 528-4961	$59 for pets up to 10 years; $99 for older animals	$3,000 limit per injury or illness; $300 deductible, 30% co-payment
VETERINARY PET INSURANCE CO. 800 872-7387	$59 for pets under 1 year; $74 for ages 1-4; $99 for 5-8; cost varies above 8	$1,000 per injury or illness, up to $5,000 a year; $20 deductible, 20% co-payment for first $180

DATA: FIREMAN'S FUND INSURANCE CO., VETERINARY PET INSURANCE CO.

Smart Money

PLAYING YOUR CREDIT CARDS RIGHT

Following the free-fall in interest rates over the past two years, credit-card rates have finally started to decline. But you need to shop carefully. There can be hidden costs to apparent bargains, and it's important to choose a card with features that fit your spending patterns.

Average credit-card rates are still at a lofty 18.29%, down only slightly from the 18.79% rate that prevailed at the beginning of 1992, according to market researcher Bank Rate Monitor. Cards from some of the biggest issuers still carry 19.8% interest.

But there are much lower rates to be had: Last week, Virginia's Signet Banking Corp. was offering some customers a rate of 6.8%. Annual fees are coming down, too.

The options on cards vary widely, however. Bank of New York Co. is promoting a rate of 11.9%, with no annual fee. But unlike many credit cards that offer a 25-day grace period during which no interest is charged, Bank of New York's card starts accumulating interest the minute a purchase is charged. Other low-rate cards come with grace periods but have high annual fees. Wachovia Corp., for example, has a card with an 8.9% rate and a grace period, but the annual fee is $39.

It pays to search carefully for a card that offers the best package for you. If you pay off your balance each month, don't worry about the interest rate, since you'll never pay it. But avoid cards that don't offer a grace period and cards with high annual fees.

Robert McKinley, president of RAM Research, says people who keep less than $1,000 on their credit cards should focus on getting lower annual fees rather than a low interest rate. Stay away from high-rate cards if you tend to carry a big balance, and avoid variable-rate cards if you're worried about rates changing. But don't worry about the lack of a grace period. With a balance, you'll pay interest daily anyway.

JUST ASK. "There are some really low rates out there, but it's up to consumers" to find what they need, says Gerri Detweiler, executive director of Bankcard Holders of America. It's also important to watch what your bank is charging you. Many offer lower rates after a customer has been with them for a year, but they wait for customers to request a rate cut before they change the terms, says another spokeswoman for the cardholders association. If you don't want to bother, remember that plenty of banks would be delighted to charge you 19.8% interest. *Kelley Holland*

BEFORE PICKING THE LOWEST RATE, ASK

- How high is the annual fee on the card?
- Is there a grace period for monthly interest?
- Will the rate change? When? Is there a cap?

DATA: BUSINESS WEEK

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ndex gives the starting page for a story or fea- with a significant reference to a company. Most diaries are indexed under their own names. panies listed only in tables are not included.

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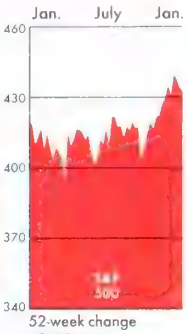
nvestment Figures of the Week

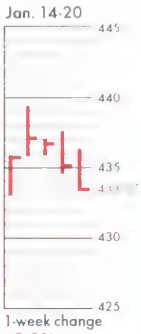
MENTARY

ock market welcomed Presi- Clinton to his new job by post- 14-point decline in the Dow industrial average. But gen- the markets, in large stocks ularly, were listless. The Dow urt by continued malaise at which predicted continued pressures in the first quarter. long-term interest rates re- ng steady, the slaughter in stocks and funds continued. ology and thrift-institution s, meanwhile, dominated the of top performers

STOCKS

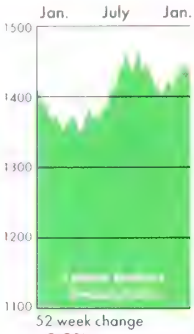


52-week change
+3.6%

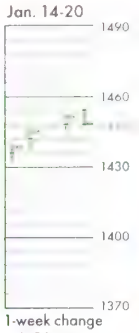


1-week change
+0.1%

BONDS

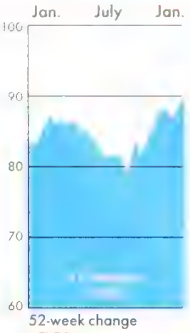


52-week change
+3.0%

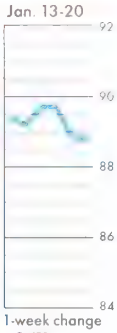


1-week change
+1.0%

THE DOLLAR



52-week change
+7.2%



1-week change
−0.7%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3242.0	−0.7	−0.4
ZE COMPANIES (S&P MidCap Index)	161.6	1.4	7.9
. COMPANIES (Russell 2000)	226.0	2.0	10.9
OMPANIES (Russell 3000)	249.6	0.4	5.6

IGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	2748.7	0.1	9.0
) (NIKKEI INDEX)	16,510.2	0.0	23.3
NTO (TSE COMPOSITE)	3290.1	−0.2	−9.6

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	3.06%	3.06%	3.84%
30-YEAR TREASURY BOND YIELD	7.32%	7.44%	7.63%
S&P 500 DIVIDEND YIELD	2.90%	2.93%	3.01%
S&P 500 PRICE/EARNINGS RATIO	19.9	19.9	22.6

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	422.8	422.0	Positive
Stocks above 26-week moving average	67.1%	64.0%	Neutral
Speculative sentiment: Put/call ratio	0.33	0.37	Neutral
Insider sentiment: Vickers sell/buy ratio	3.29	2.75	Negative

DUSTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
MICONDUCTORS	22.8	65.0	INTEL	27.5	83.6	114 3/4
VINGS AND LOANS	21.4	15.8	GREAT WESTERN FINANCIAL	26.7	7.0	19
CHINE TOOLS	16.8	47.9	CINCINNATI MILACRON	22.4	45.7	19 1/8
TOMOBILES	14.1	37.2	CHRYSLER	19.8	172.6	38 1/2
FENSE ELECTRONICS	12.0	12.2	LORAL	16.0	34.2	52 1/2

-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
UGS	−15.4	−24.5	PFIZER	−22.4	−20.4	61
VERSIFIED HEALTH CARE	−15.0	−19.7	ABBOTT LABORATORIES	−18.9	−14.6	26 3/4
BACCO	−9.5	−8.7	AMERICAN BRANDS	−14.0	−19.3	36
SPITAL MANAGEMENT	−8.9	−31.5	NATIONAL MEDICAL ENTERPRISES	−15.2	−33.3	10 1/2
. AND GAS DRILLING	−8.0	10.7	ROWAN	−13.1	17.8	6 5/8

UTUAL FUNDS

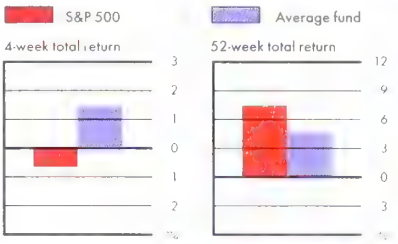
MORNINGSTAR INC

ERS

eek total return	%
ADMAN OCEANOGRAPHIC TECHNOLOGY	11.7
RRILL LYNCH TECHNOLOGY B	10.2
ERICAN HERITAGE	10.1
ek total return	**%**
ELITY SELECT SAVINGS & LOAN	51.5
HN HANCOCK FREEDOM REGIONAL BANK B	44.6
KMARK	43.8

LAGGARDS

Four-week total return	%
MONITREND GOLD	−17.5
PILGRIM CORPORATE UTILITES	−10.0
BENHAM GOLD EQUITIES INDEX	−8.6
52-week total return	**%**
LEXINGTON STRATEGIC INVESTMENTS	64.0
UNITED SERVICES GOLD SHARES	−55.9
MONITREND GOLD	−42.9



LATIVE PORTFOLIOS

DATA RESOURCES INC

r amounts sent the present e of $10,000 ted one year ago ch portfolio

ntages indicate ay total returns

Treasury bonds
$11,189
+1.84%

U.S. stocks
$10,786
+0.95%

Money market fund
$10,277
+0.05%

Foreign stocks
$9,518
+0.94%

Gold
$9,261
−0.32%

a on this page are as of market close Wednesday, Jan. 20, 1993, unless otherwise indicated. y groups include S&P 500 companies only, performance and share prices are as of market close Jan. 19. Mutual fund returns are as of Jan. 15. Relative portfolios are valued as of Jan. 19. A more detailed explanation of this page is available on request

OVERHAUL AIDS RESEARCH

Bill Clinton has taken a correct first step by committing himself to naming an AIDS czar to oversee all research and prevention aimed at stopping the ravages of the disease. As many companies are discovering, business has a lot to learn about managing the welfare of employees who are stricken with AIDS (page 48). Just as there needs to be someone in each company with specific responsibility for AIDS-related policies and programs—backed from the top—the federal government also needs to pinpoint responsibility.

There is plenty of room for improvement in managing AIDS research. A top priority of the new appointee should be a reshuffling of the National Institutes of Health AIDS-research bureaucracy. After spending $15 billion over the past decade, researchers have staked reputations and careers on scientific approaches that have led to few treatments and no cure for the deadly disease. A small coterie now controls most federally sponsored AIDS research being done in the U. S. Opening up the research effort to allow a wider range of scientific approaches would raise the chances of success. A new team would bring in fresh ideas, innovative scientific approaches, and a new energy in the battle against AIDS.

Unfortunately, early hopes of a treatment and cure for AIDS have so far been dashed. Despite vast expenditure, the nucleus of researchers specializing in AIDS still does not know precisely what causes the disease. While a single source, the human immunodeficiency virus (HIV), was initially thought to be the sole cause of AIDS, recent research suggests that's not the case. It's now suspected that co-factors, other infections perhaps, may be necessary for AIDS to develop. But researchers still don't know what these co-factors are or how they work in conjunction with HIV. Those antiviral drugs that appear to work against HIV itself, such as Burroughs Wellcome's AZT, were developed by private pharmaceutical companies.

There are plenty of examples of successfully recharging bureaucracies with energy. A shakeup is needed in NIH AIDS research. Throwing money at the old AIDS-research bureaucracy will not solve the problem. A new team with new leadership could.

THE BOORS OF WALL STREET

Wall Street is a hotbed of innovation. New securities, financing instruments, and trading strategies are dreamed up daily. Yet as the Street rushes pell-mell into the 21st century, its attitude toward employees is too often stuck in the 19th century. Firms can be shockingly callous toward some important groups of employees, including minorities, people over 40, and—especially—women.

Kidder Peabody, in particular, has been hit by several lawsuits, complaints, and other actions alleging sex, age, and racial discrimination (page 60). Many women conte that the firm is hostile toward them. They say they are of subjected, for example, to a variety of comments t amounts to sexual harassment. For those women, the fi has been a very unpleasant place to work, which is w many have left Kidder.

But Kidder is by no means alone in cultivating an atr sphere that resembles a cross between a locker room an fraternity party. Puerile high jinks on the floor of the N York Stock Exchange are common on slow trading da Male executives too often are patronizing, condescending, demeaning when they talk to women. Despite this, some the Street's best traders, especially in swaps and foreign change, are women. So are many of the Street's highest-p forming brokers and investment bankers. But when it co to the high-level jobs, the glass ceiling on Wall Street is impenetrable as it is in most industries in the country.

If Wall Street wants to stay innovative, it must take vantage of all its resources. No doubt there are some W Street leaders who see that as global and domestic com tition intensifies, they will need all the talent they can fi

MEXICO: HANDLE WITH CARE

Mexico's President Carlos Salinas de Gortari i tireless leader who has in the past four years Mexico firmly on a path toward modernizati He has done it with both savvy and iron will, opening up insular, outmoded economy to the fresh winds of competit and efficiency. Having studied other systems, Salinas ch an economy-first, politics-second approach to reform. W the economic design is still a work in progress, politics is truding more and more—from both sides of the border (p 40). At home, Salinas has to prove to his people that his ing party can win elections without a hint of fraud.

But Washington is also watching closely. After all, First World country has ever before hitched its fate t Third World neighbor, and the consequences, in wage p sures, environmental degradation, and population flows, unknown. The Clinton Administration seems to be in s with Congress over concerns about Mexico's environme and labor conditions. No fewer than 18 committees of C gress will be poring over the North American Free Tr Agreement and peering into Mexico's often opaque polit system. Indeed, while the economic relationship shows gr promise, with trade and investment booming in both di tions, there are many other issues yet to be explored.

Still, trying to browbeat Mexico into agreements would a grave error. Talk about disinterring the ghost of Yanqui perialism! Instead, Congress and the new Administrat need to step gingerly, bringing Mexico along without rais hackles supersensitized by a century and a half of be pushed around by ham-handed gringos. That means sign NAFTA and forging reasonable side agreements to resolve ferences on environment and labor rights. It will tak level of statesmanship we don't often show toward Mex but there's too much at stake not to try.

MID OCEAN

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a Bermuda company established to write worldwide catastrophic reinsurance, has commenced business effective November 16, 1992

Marsh & McLennan Risk Capital Corp. and J.P. Morgan Securities Inc. rendered reinsurance, actuarial, and financial advice in connection with the formation of the company

J.P. Morgan Securities Inc. acted as placement agent in raising the initial common equity capitalization of $365,000,000

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December 1992

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Introducing

ThinkPad

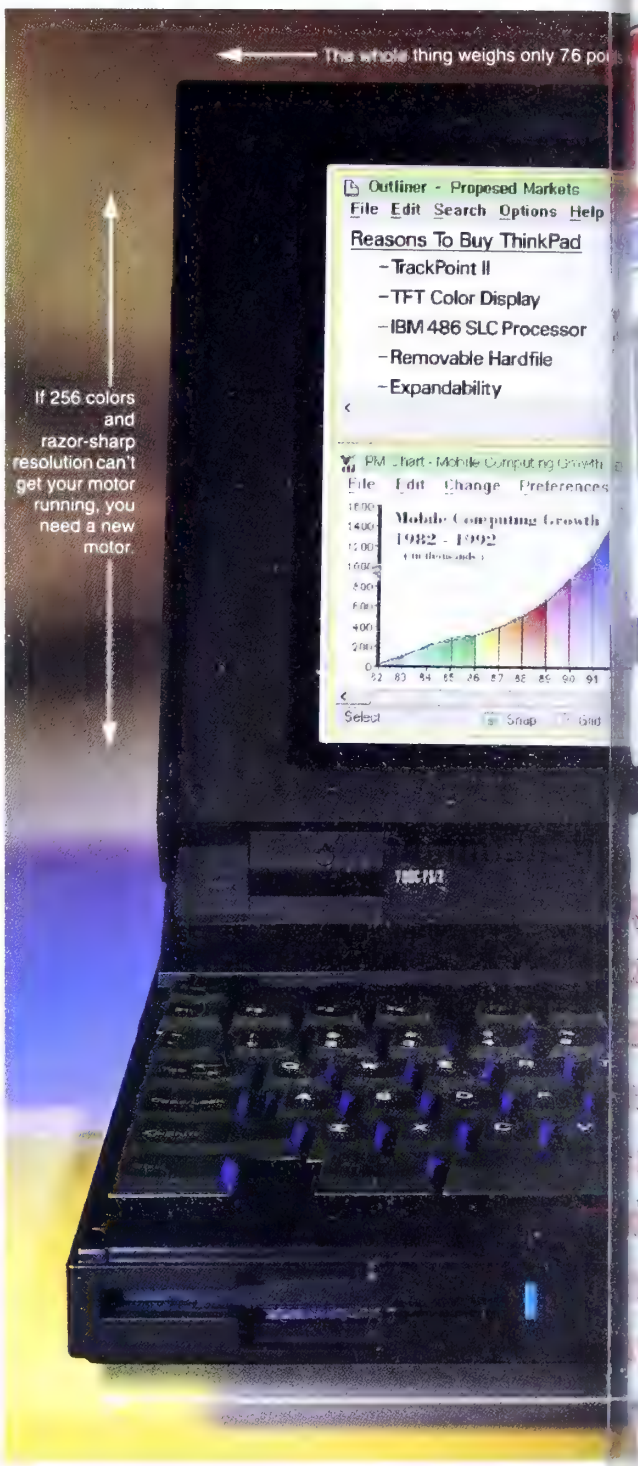
The top-of-the-line ThinkPad 700C sports a screaming 486 SLC™ 25 MHz processor. But it's built for comfort too. There's a surprisingly roomy interior, with a full-size, ergonomically designed keyboard. And a screen that literally bends over backwards.

Strategically placed on the keyboard is a little red spot called the TrackPoint II.™ It does what a mouse would do with a few million more years of evolution. Nothing dangles; it's part of the soul of the machine. You can operate it with one fingertip. And it lets you think on any terrain, even one without any flat surfaces.

The ThinkPad's screen is a thing of almost aching beauty. Its 640 × 480 VGA resolution is sharper than that of many desktop computers. It displays 256 colors. And it's the biggest screen on any notebook. So it's very easy on the eyes.

The ThinkPad comes standard with things some other notebooks don't even offer as options. Like 4MB

*Depending on usage and configuration. **MSRP. Dealer prices may vary. †Warranty information available from the Personal Systems HelpCenter or an IBM authorized dealer. 700T warranty is available in USA and Canada only. ††In Canada, call 1 800 465-7999. IBM is a registered trademark and ThinkPad, HelpWare, HelpCenter, SLC and TrackPoint II are trademarks of International Business Machines Corporation. PRODIGY is a registered trademark of Prodigy Services Company. ©1992 IBM Corp.



Its mother wa
Its father w

3 February 8

AN EXPRESS ▶ WHO'S REALLY IN CHARGE? ▶ THE REMAKING OF IDS

BusinessWeek

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THE VIRTUAL CORPORATION

Big, complex companies usually can't react fast enough. Small, nimble ones may not have the muscle. What's the answer? A new model that uses technology to link people, assets, and ideas in a temporary organization. After the business is done, it disbands. It's called the virtual corporation. Just another management fad —or a vision of the future?

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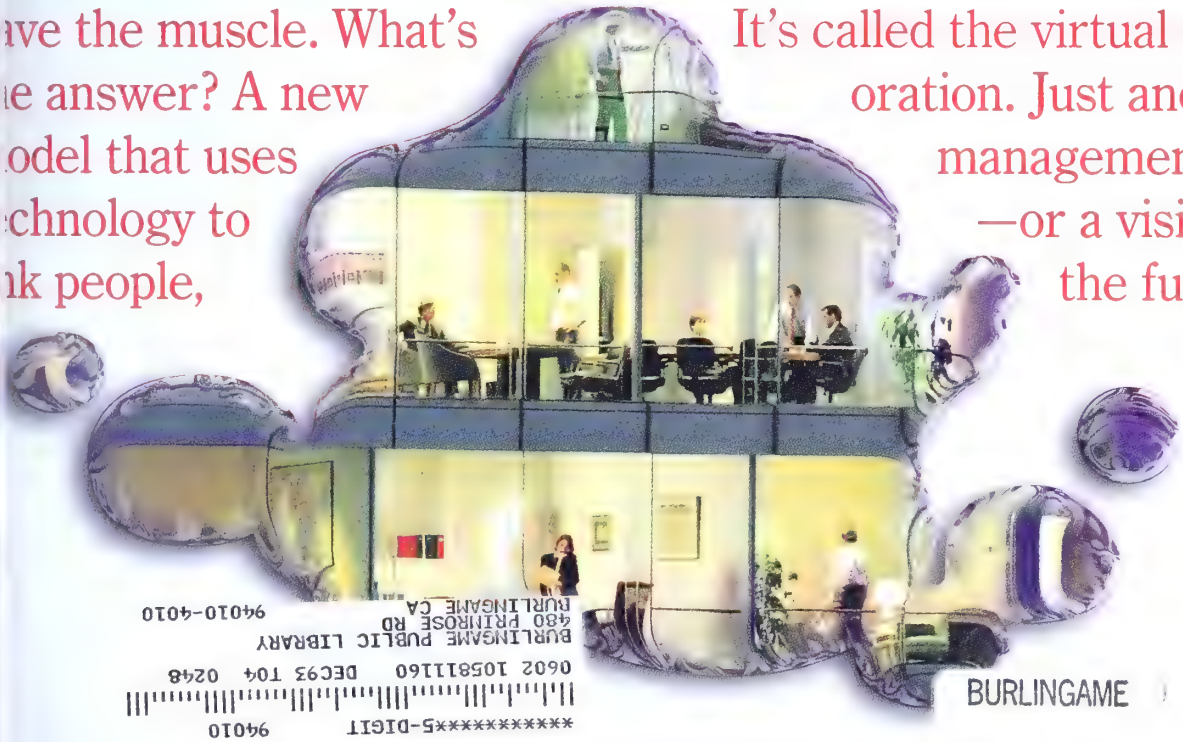

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Recently, an independent research firm

compared the new $13,000* *Nissan Altima* against the $26,550** Lexus ES 300 to determine which car's body panels were put together with a higher level of precision.

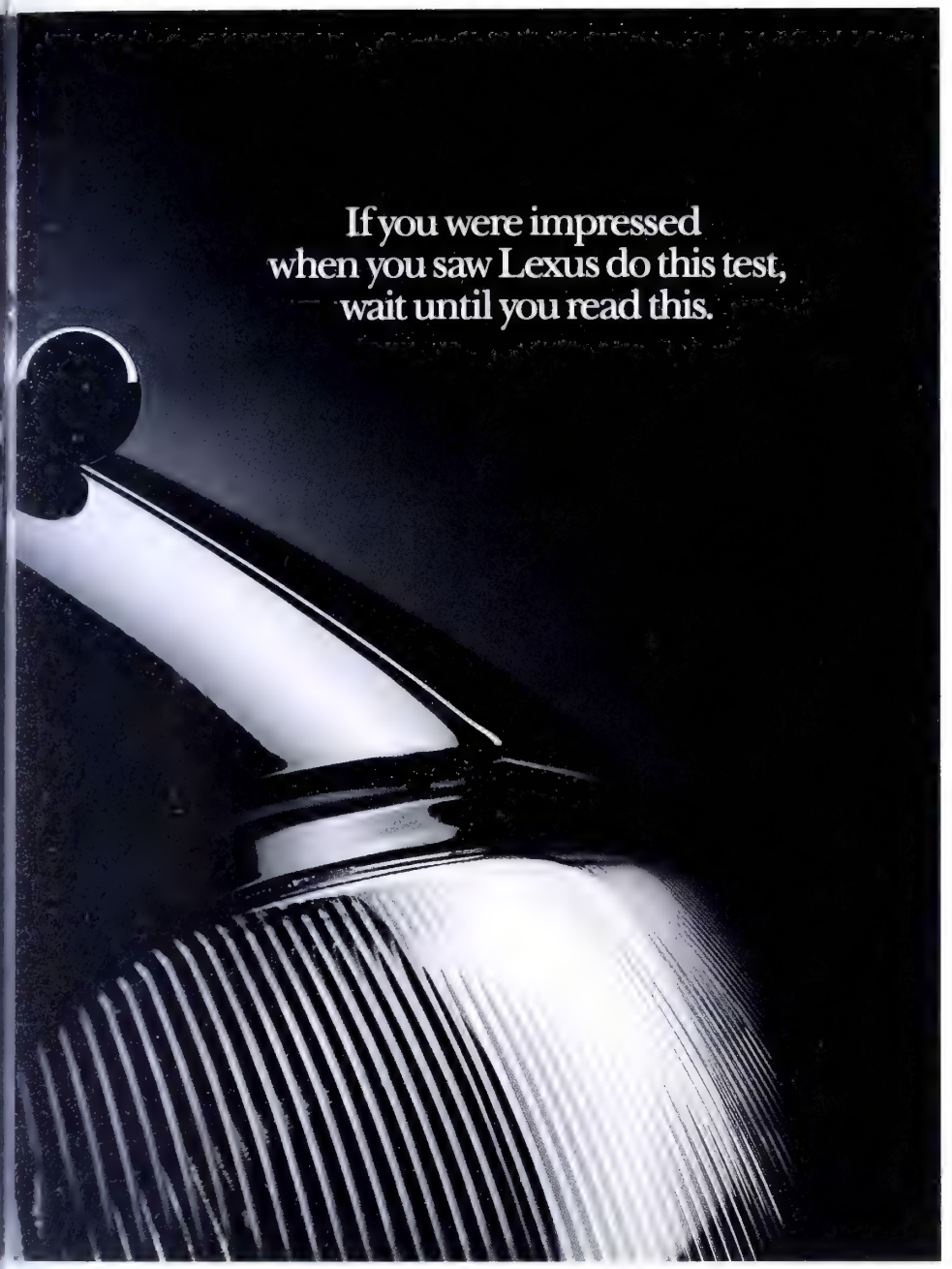
The results were quite astonishing.

Thanks in part to Nissan's state-of-the-art robotic body assembly system and over 3500 precision welds, the *Altima's* tolerances between body panels proved to be every bit as accurate as its stratospherically priced competition's. In fact, the *Altima* is built with such precision that it had an average gap difference of just .018 inches.***

What does this mean in layman's te

It means the co fit snugly, the trun shuts soundly and hood closes perfely. It also means the mobile offers sucl tural soundness th

*Nissan Motor Corporation U.S.A. Smart people always read the fine print. And they always wear their seat belts. *Manufacturer's suggested retail price for 1993 Nissan XE excluding taxes, title, license, destination charges and options. **Manufacturer's suggested retail price for 1992 Lexus ES 300 excluding taxes, title, license, dest*



aks and rattles are ally nonexistent. slide inside the *Nissan Altima's* cabin and you'll see that we let nothing slip through the cracks. The seats have been specially tailored to offer remarkable support. Every control has been thoughtfully placed to assist the driver. All four doors have been triple-sealed to help keep out moisture.

And noise is so minimal that at 55 mph, the *Nissan Altima's* cabin is actually quieter than a BMW 325i's.***

But while the *Altima* delivers total comfort, you can rest assured you won't fall asleep at the wheel. A 150-horsepower engine offers exemplary responsiveness, while its suspension is yet another Nissan engineering marvel. On a slalom course the *Altima* can beat an Acura Legend L Sedan.***

Call us at 1-800-NISSAN-3, ext. 604, and find out more about our amazing new car. You'll discover that an automobile that's put together well needn't put you well into debt.

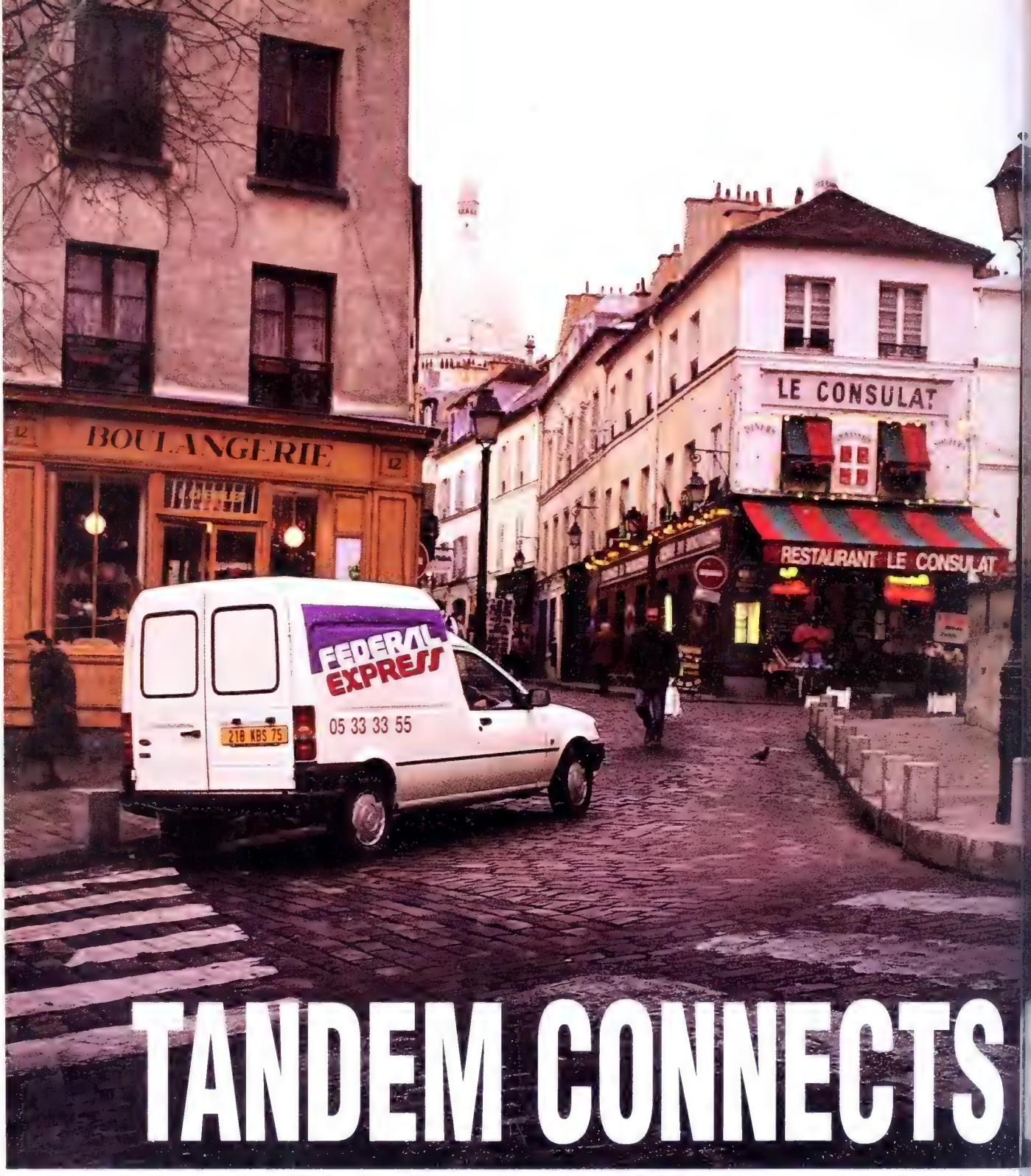
The New Nissan

Altima

NISSAN

It's time to expect more from a car.™

*es and options. ***Based on independent tests conducted by USAC. Body panel tolerances based on average gap consistency. Other claims certified by AMCI for 1993 n Altima XE or SE vs. 1992 competitive vehicles. Slalom comparison based on course completion time. Interior quietness based on decibel level at 55 miles per hour.*



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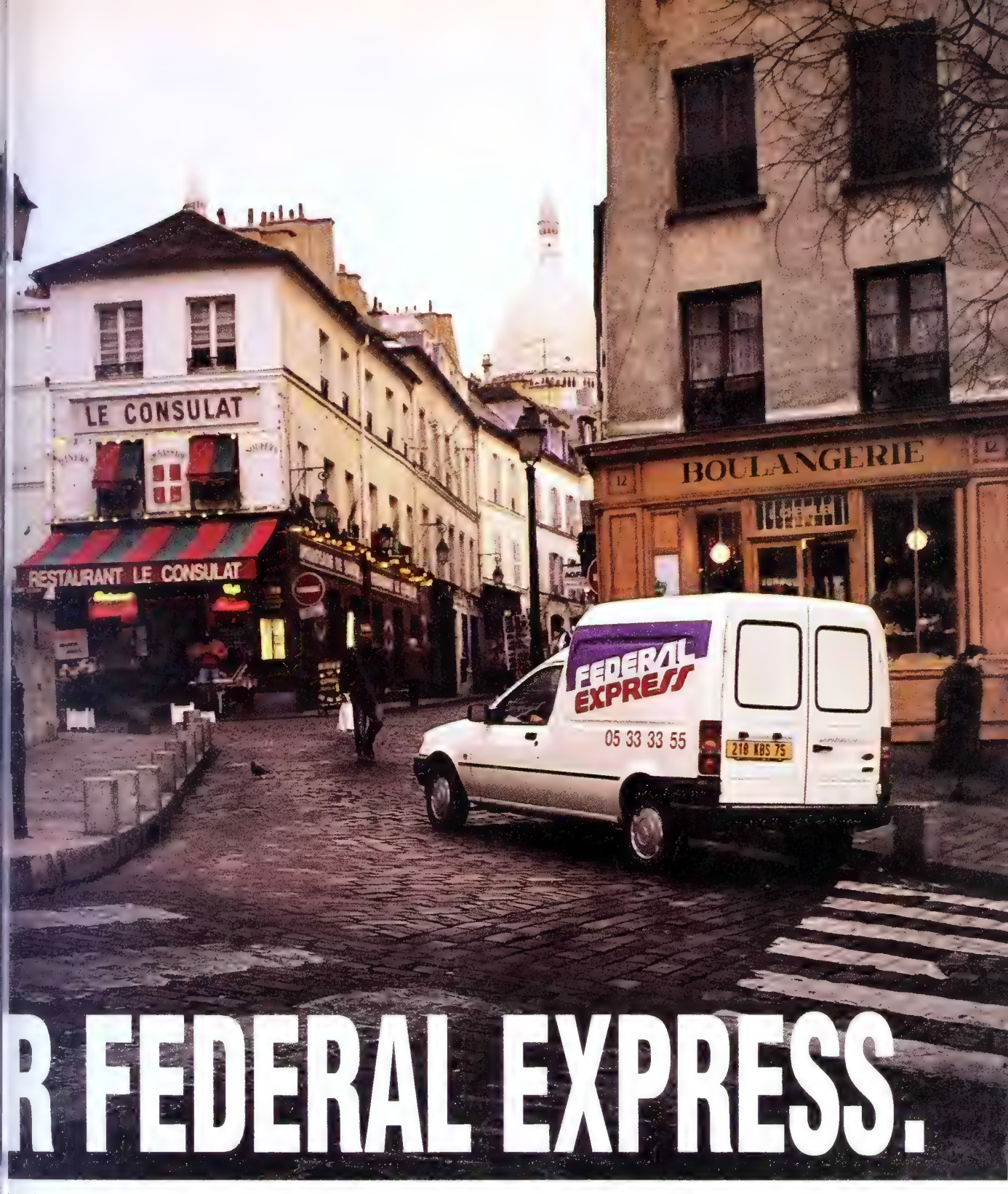

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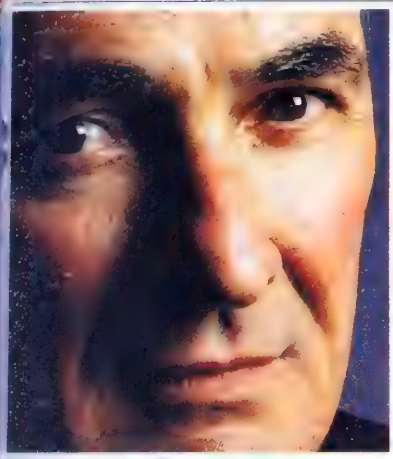

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Fast, focused virtual corporations

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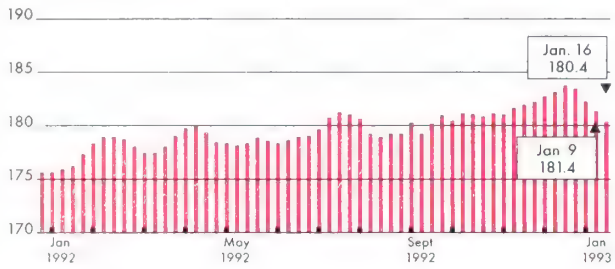
BusinessWeek Index

PRODUCTION

Change from last week: −0.6%
Change from last year: 2.3%

1967=100 (four-week moving average)

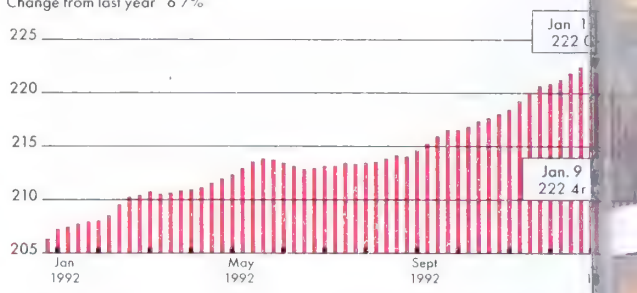


The production index dropped during the week ended Jan. 16. On a seasonally adjusted basis, rail-freight traffic and truck, lumber, and coal production declined, while electric power output increased. Auto, crude-oil refining, and steel production levels were unchanged from the previous week, and data for paper and paperboard were unavailable. Before calculation of the four-week moving average, the index rose slightly to 181.3, from 181.1

BW production index copyright 1993 by McGraw-Hill Inc

LEADING

Change from last week: −0.2%
Change from last year 6.7%



The leading index declined during the week ended Jan. 16 as the index tu lower at the start of the new year. In the latest week, slightly higher stock pr and improved growth rates for materials prices, real estate loans, and M2 offset negative sign of higher bond yields. The number of business failures was unchan in the previous week. Before calculation of the four-week moving average, the in inched up to 221.7, from 220.6.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/23) thous. of net tons	1,772	1,766#	3.1
AUTOS (1/23) units	108,593	119,563r#	9.7
TRUCKS (1/23) units	84,756	94,860r#	47.5
ELECTRIC POWER (1/23) millions of kilowatt-hours	59,484	60,678#	−0.9
CRUDE-OIL REFINING (1/23) thous. of bbl./day	13,090	12,959#	3.5
COAL (1/16) thous. of net tons	17,977#	18,367	−4.5
PAPERBOARD (1/16) thous. of tons	NA#	803.4	NA
PAPER (1/16) thous. of tons	NA#	764.0	NA
LUMBER (1/16) millions of ft.	446.0#	435.1	−9.9
RAIL FREIGHT (1/16) billions of ton-miles	20.5#	20.6	2.5

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (1/27)	124	125	126
GERMAN MARK (1/27)	1.58	1.61	1.61
BRITISH POUND (1/27)	1.51	1.54	1.78
FRENCH FRANC (1/27)	5.35	5.51	5.50
CANADIAN DOLLAR (1/27)	1.27	1.28	1.17
SWISS FRANC (1/27)	1.46	1.47	1.44
MEXICAN PESO (1/27)	3.079	3.094	3.079

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (1/27) $/troy oz	330.600	329.000	−7.3
STEEL SCRAP (1/26) #1 heavy, $/ton	99.50	99.50	11.2
FOODSTUFFS (1/25) index, 1967=100	201.3	201.6	−2.2
COPPER (1/23) ¢/lb.	103.0	103.0	1.6
ALUMINUM (1/23) ¢/lb	56.5	57.0	0.9
WHEAT (1/23) #2 hard, $/bu	4.08	3.94	−5.1
COTTON (1/23) strict low middling 1-1/16 in., ¢/lb.	54.99	54.16	7.3

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Ch yea
STOCK PRICES (1/22) S&P 500	435.59	433.62	4.
CORPORATE BOND YIELD, Aaa (1/22)	7.90%	7.96%	3.
INDUSTRIAL MATERIALS PRICES (1/22)	98.5	98.3	4.
BUSINESS FAILURES (1/15)	427	428	5.
REAL ESTATE LOANS (1/13) billions	$404.6	$403.9r	0.
MONEY SUPPLY, M2 (1/11) billions	$3,448.0	$3,441.4r	0.
INITIAL CLAIMS, UNEMPLOYMENT (1/9) thous.	361	344	5.

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally a data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch yea
HOUSING STARTS (Dec.) annual rate, thous.	1,302	1,234	9.
BUDGET SURPLUS OR DEFICIT (-) (Dec.) millions	−$38,945	−$32,730	14.
REAL GROSS WEEKLY PAY (Dec.)	$254.16	$256.81	
RETAIL SALES (Dec.) billions	$166.8	$164.8	5.

Sources: Commerce Dept., Treasury Dept., BLS, Census Bureau

MONETARY INDICATORS

	Latest week	Week ago	% Ch yea
MONEY SUPPLY, M1 (1/11)	$1,033.8	$1,028.8r	
BANKS' BUSINESS LOANS (1/13)	276.2	278.5r	
FREE RESERVES (1/20)	987	1,095r	
NONFINANCIAL COMMERCIAL PAPER (1/13)	145.2	144.9r	

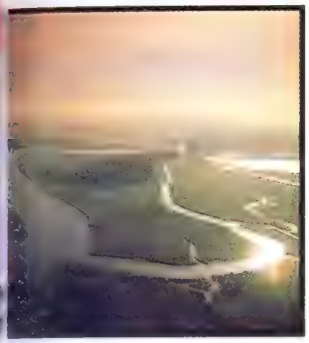
Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed two-week period in millions)

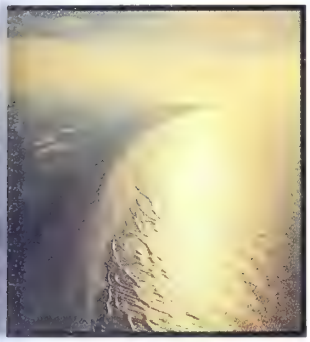
MONEY MARKET RATES

	Latest week	Week ago	
FEDERAL FUNDS (1/26)	2.96%	3.35%	4.
PRIME (1/27)	6.00	6.00	6.
COMMERCIAL PAPER 3-MONTH (1/26)	3.19	3.21	4.
CERTIFICATES OF DEPOSIT 3-MONTH (1/27)	3.14	3.18	4.
EURODOLLAR 3-MONTH (1/22)	3.16	3.24	4.

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipm
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful





MORNINGS START SLOWLY, BUT EARLY, ON KIAWAH, WITH COFFEE ON THE SIDE PORCH AND THE COMFORTING RUSTLINGS OF NEWSPAPER. WE MIGHT BE LAUGHING ABOUT SOME STORY AN OLD FRIEND TOLD AT SUPPER LAST NIGHT IN CHARLESTON OR SETTING UP A TEE TIME AT THE OCEAN COURSE. MY DAUGHTER PERCHES ON THE ARM OF MY CHAIR SO I CAN READ HER THE FUNNIES, UNTIL HER BROTHERS THUNDER PAST ON THEIR WAY TO BIKE RIDES AND CRABBING AND OCEAN SWIMS. BEFORE SHE LEAPS UP TO TAG ALONG, SHE KISSES ME GOODBYE AND I GIVE HER MY SQUEEZE OF THE HAND THAT MEANS I LOVE YOU, TOO. THERE'S A LOT OF LOVE IN THIS HOUSE OF OURS, LOVE FOR EACH OTHER AND FOR THIS ISLAND LIFE WITH A RHYTHM AND HEART ALL ITS OWN.

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When Romance Is In the Air

Haven't you noticed? Just before your biggest presentation of the year is due, Valentine's Day comes along. You know that if you can manage to ace the presentation it will keep you off the cut list when your department is downsized during the next few months.

You tell yourself that since you have been working so late every evening recently, that significant other person in your life will understand if you don't come up with any wildly romantic Valentine's Day gift this year. Then you remember: Something very similar happened at the same time last year. In fact, on last Valentine's Day, you were out of town trying to shore up the big account that was just about to get away, and you didn't even bother to call.

Then you try to dismiss the whole idea that Valentine's Day is important. Isn't it just a commercial holiday? What does it matter anyway, whether you remember your loved one on this particular day or not?

Well, maybe it does matter. Perhaps in giving in to that loving feeling on February 14, we observe this holiday's ancient meaning: the celebration of the mating of birds and the planting of the first seeds in the garden and the anticipation of winter's end and the return of spring's warmth. Or perhaps we remember fondly how we shivered wi excitement wh we sent a pen valentine to t kid next door.

Whatever t origins of th pleasures we fe at sending roma tic messages o Valentine's Da those pleasur can be as palpab as a whiff of o favorite comfo food. Some ter der part of u seeks to expre a true renewal o love for that sp cial person in o lives—a renew invariably fille with delight.

And, come o admit it. Thes days shopping f a suitable Valen tine's Day toke is a veritable pie of cake, whethe your schedule i frantic or no Phone orders an late store hour make it simpl The secret is don't send a gi that's far-out o exotic. When i comes to love most people pre fer somethin classic. Just mak sure that classi something hap pens to be beauti ful, or delicious, or sensuous.

After all, on Valentine's Day it reall is the thought that counts. Shakespear expressed it in one of his sonnets, "Fo thy sweet love remembered suc wealth brings that then I scorn t change my state with kings."

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HEALTH-CARE REFORM COULD MAKE THE ECONOMY SICK

In the article "Damn the deficit, go for growth" (Economic Viewpoint, Jan. 18), I find it hard to understand why most economists separate the health-care system from the economy in regard to growth. I can only imagine what the degree of the latest recession would have been if not for the continued growth within the health-care industry. The dollars that are expended in health care do not evaporate into a vacuum. They are spent to employ workers and often go to build, maintain, and develop those facilities that will be delivering health care in the future.

The Clinton Administration should carefully consider that its plans for reform of the health-care system may actually stagnate economic growth and result in a ballooning of the deficit.

Edward J. Bednar
Charlotte, N. C.

WRITE OFF THE REVIEW, MAYBE—NOT THE BOOK

I am glad I read *Bankruptcy 1995* before reading Howard Gleckman's review of the book, "Deficit apocalypse now! (Says Figgie)" (Books, Jan. 11). His review might have discouraged me from reading the book. My reaction to this book was very favorable, and I would highly recommend it to your readers because it provides a very clear and comprehensive understanding of the deficit. Apparently, Gleckman's sensibilities were offended by the book's title and use of dramatic license to emphasize the seriousness of the deficit. Your readers will distinguish between form and content. They will find the meat of the book—i.e., the statistics and charts—to be very informative and compelling.

Richard D. Wilson
Town & Country, Mo.

Gleckman seems to castigate Harry E. Figgie Jr. for opposing tax hikes. Apparently, Gleckman doesn't get it. Raising taxes will not, in and of itself, remedy the deficit. It's not that Americans are not taxed enough. It's that the government spends more than it receives. Unless taxes are written into law as to be applied to reduce the deficit, Congress will not voluntarily commit the taxes to that goal.

Really, how hard is it? Does Gleckman approve of Bill Clinton's proposal to raise taxes and cut programs to save only $50 billion a year? What kind of aggressive deficit-reduction plan is that! If George Bush's largest tax hike in history didn't put a dent in the deficit, does Clinton's plan have any chance of stemming the fiscal bleeding?

William M. Sczepanski
Highland Village, Tex.

CHAPTER 11: SOME ADDENDA AND AFTERWORDS

Your article "A new page for Chapter 11?" (Top of the News, Jan. 25), on the need for bankruptcy reform, is among the best to address the subject. Your concern about delay is particularly well-placed. The median time companies spend in reorganization today—about 18 to 22 months—is more than double the 6- to 9-month median of 20 years ago.

I would like to challenge, however, the oft-repeated charge that the executives who run a company into the ground are allowed to try to save it. Of the chief executives who led the largest publicly held companies to financial disaster in the 1980s, 95% lost their jobs by the end of the Chapter 11 case, according to my research. Management turnover is one aspect of Chapter 11 that is working.

Lynn M. LoPucki
Professor
University of Wisconsin Law School
Madison, Wis.

So United Airlines Inc.'s Stephen M. Wolf has written to President Clinton seeking help for the airline industry. But what help has Wolf provided to United's business travelers?

I fly over 60,000 miles annually, most of it cross-country from Los Angeles to the East Coast and almost all of it on United. Last June, when UAL announced its Fair Fares program, I entertained some hope that airline costs for frequent business travelers such as myself might become reasonable and rational. Unfor-

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Readers Report

CORRECTIONS & CLARIFICATIONS

Bill Clinton (at 46 years, 2 months) was not the second-youngest American to be elected President, as asserted in "Clinton's agenda" (Cover Story, Jan. 25). Theodore Roosevelt assumed the office at 42, upon McKinley's assassination, and was reelected in his own right in 1904 (at 46 years, 1 week). John F. Kennedy was elected at 43.

"Toupee his debt to society" (In Business This Week, Jan. 18) should have said Michael Milken earned the equivalent of $1,046 per minute in 1987, not $1,046 per second.

tunately, Fair Fares and similar programs from other carriers died a quick death. Today, the price of a standard coach ticket from Los Angeles to New York or Washington is more than $1,200, almost twice the price for the same ticket six months ago.

The major issue confronting U. S. airlines is not foreign carriers or unfair competition from an airline under Chapter 11 protection. Rather, American Airlines Inc., UAL, and other carriers must offer reasonable and rational pricing to assure a steady flow of customers to fill airplanes.

Kenneth C. Green
Encino, Calif.

DOES THE UNITED WAY STILL HAVE A WAY TO GO?

Social service agencies are in dire straits because of the United Way, and the United Way still doesn't get it.

The basic problem, as alluded to in "They didn't even give at the office" (Social Issues, Jan. 25), is that donors want the ability to direct their contributions to specific agencies, yet the messages from the agencies delivering the services are not getting through to the donors.

The United Way is presently unwilling to give up its [tacit] monopoly of the payroll-deduction process. In the early days, the United Way performed a vital service. It enabled employees to use payroll deductions and enabled employers to operate a simple system (one field in the payroll system, one check to United Way). Today's technology (computers and payroll systems) no longer requires this degree of control, yet United Way still operates under the old paradigm.

United Way and leading agencies need to get together and figure out how to run a communitywide campaign, where agencies can market directly to donors and donors can contribute by payroll de-

tion. (United Way says it has donor ıce, but not really. Agencies are pre- ted from, or penalized for, marketing r the time of the campaign.)

ook at those groups marketing di- ly to donors: Religion was up 7% in l compared with 1990; education, up arts, up 12%; environment, up 11%. ups going through United Way-Hu- ı Services are down 10%.

can be done. Without a change, our al-service delivery system is in deep ıble.

George A. Chamberlain III
Boston

egarding your story on the United Way, all I can say is: What arro- ce! As always, extremist organiza- s seek to blame others for their rtcomings, i.e., the recession and oth- harities. Could it be that the truth is ıing out about where the United Way s its funds? Millions of Americans appalled when they find their hard- ıed money being given to extreme ical movements by the United Way, le at the same time being taken away n organizations such as the Boy uts. That is why my family and nds have stopped giving "The United y."

Rick Longenecker
San Francisco

O SAYS YOU CAN'T SELL ISRAELI BOND?

our article "When the heart says 'invest in Israel'" (Personal Busi- s, Jan. 18) states that there is no ondary market for Israeli bonds. ı're stuck with them until maturity. I phoned a discount broker and had no ficulty at all in obtaining an asking e for an Individual Variable Rate Is- l Bond that I recently purchased.

Marc A. Schwartz
West Orange, N. J.

itor's note: The State of Israel nds organization maintains that, h the exception of Current Income nds, no recent issue of Israeli bonds ı be sold on the open market. Vari- s bonds, including the Individual riable Rate Issue bonds, can only be nsferred to family members or do- ted to charitable or educational in- tutions. However, at least one Wall eet firm, Kern, Suslow Securities ., says it buys and sells all Israel nds, whether or not they have trans- restrictions.

ers to the Editor should be sent to Readers ort, Business Week, 1221 Avenue of the Ameri- New York, N. Y. 10020. Fax: (212) 512-4464, x: 12-7960, Intl. 4998204. All letters must in- le an address and daytime and evening tele- ne numbers. We reserve the right to edit letters clarity and space.

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MURDOCH
By William Shawcross
Simon & Schuster • 492pp • $27.50

RUPERT THE INSCRUTABLE

If Rupert Murdoch ever needs a contest to take the place of Wingo in his tabloid papers, here's a surefire winner. Offer $1 million to any reader who can correctly answer the question: "What makes Rupert run?"

Odds are Murdoch would never have to pay out a dime. For a new biography of the Australian media baron, British journalist William Shawcross interviewed scores of friends and foes to find the answer: "It isn't greed. It isn't even power," says the headmaster of Murdoch's grammar school. *Au contraire*, says one of Murdoch's lieutenants: "Rupert is too greedy and too mean. He is only interested in control and power."

Murdoch is full of such contradictions. Even those who know the soft-spoken publisher best can't agree on the motives behind his tireless pursuit of a global empire. And Shawcross, whose *Sideshow* was a blistering indictment of the Nixon Administration's policy toward Cambodia, settles on the tepid theory that Murdoch wanted to escape the shadow of his father, also a powerful publisher.

Forgive this weakness, however, and *Murdoch* can be savored as a chronicle of one man's fiery arc through the media firmament. The paucity of personal insight into Murdoch is itself revealing. For all the fuss that he has aroused in four decades of wheeling and dealing, Murdoch remains an inscrutable figure—an apostle of global communications who is a master of not telling the world what he really thinks.

What we're left with is a dizzying travelogue. Shawcross takes us on Murdoch's restless journey from Adelaide to Sydney to London to New York to Los Angeles. He shows how the 61-year-old publisher cajoled, connived, and bullied his way to ownership of many of the world's choicest media properties. Murdoch didn't discriminate: He stalked London's seamy *News of the World* as hungrily as the haughty *Times*; the scrappy *Boston Herald* as fiercely as the renowned Twentieth Century-Fox studio.

As an owner, Murdoch has been similarly unswerving. He took almost all his papers downmarket and served readers a steady diet of cheesecake and Bloody Marys. His *New York Post* published the immortal headline "Headless Body in Topless Bar." And he introduced tabloid standards to TV. His Fox Broadcasting Co. network, which gave us *A Current Affair*, is now pushing the bounds with a leering game show called *Studs*.

For these and other crimes, some members of the cultural elite will always condemn Murdoch as a philistine. In response, Murdoch could well borrow from Fox's cantankerous Bart Simpson: "Eat my shorts!" He has despised elite society ever since he got his first heavy dose of it at Oxford University in the Fifties. Today, the bare-breasted women who appear on Page 3 of Murdoch's *Sun* are his daily slap at British propriety.

Shawcross astutely notes that Murdoch's politics, like his populist views, have been swayed by prevailing winds. At Oxford, he kept a bust of Lenin on his mantelpiece. But by the time Margaret Thatcher and Ronald Reagan came to power, he had become an archconservative. In New York, where true conservatives rarely win, the *Post* enthusiastically endorsed Edward Koch's 1977 mayoral campaign. Thereafter, notes Shawcross, "Murdoch had a grateful friend in City Hall."

Making a friend of Thatcher was good business: Murdoch needed her to c the London newspaper unions in 18 Shawcross brings that episode to l vividly illustrating the military prec and brute force Murdoch used to m his papers to a grim, computerized p ing plant in East London.

Less satisfying is his account of l old Evans' downfall as editor of *Times* in 1982, barely a year after M doch acquired it. That's too bad, bec this is the episode that set off a ten last fall. After *The New Yorker* p lished a story suggesting that this was less a biography than hagiogra novelist John Le Carré came to the fense of his friend Shawcross, pro ing that Evans' wife, *New Yo* Editor-in-Chief Tina Brown, ran piece because the book portrayed husband badly. Shawcross does d Evans, now president of Random H trade group, as a ditherer. But we n quite understand whether the trou at *The Times* were a sult of Evans' temp ing, mixed signals f Murdoch, or both.

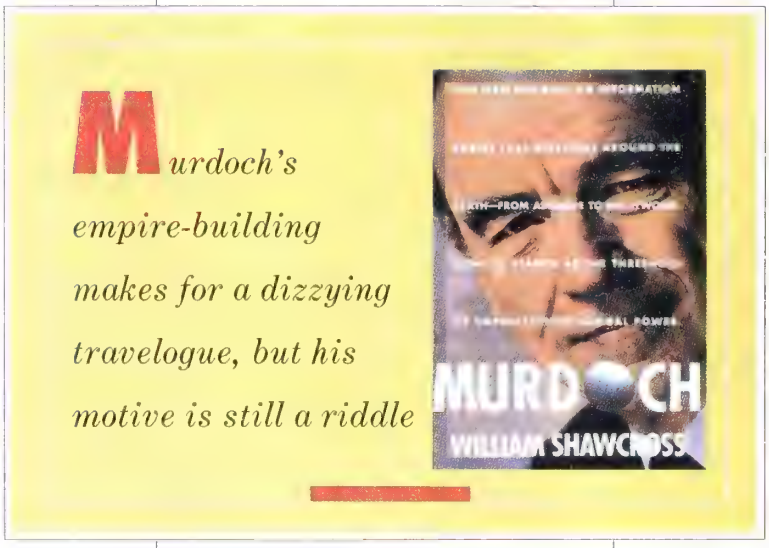
The author also g short shrift to one Murdoch's biggest er his decision to eschew ble TV in favor of sate broadcasting. He n that Murdoch missed on the huge profits i ble but doesn't point o further problem this step may create: C could prove to be the mary pipeline into home for all sorts o teractive programm With his diverse pro ties, Murdoch is sur be a player in this multimedia world. satellite service is now edging into p itability, but he may come to regret lack of a cable pipeline.

More broadly, Murdoch seems to any cohesive strategy beyond cease expansion. Even a scary brush with solvency two years ago hasn't cooled ardor. One yearns to hear Murdoch flect a bit on the responsibilities of enormous power. Pressed by Shawcr Murdoch acknowledges that the cree global media threatens to dilute cultures. But he dismisses questi about his lowbrow fare with a q "You know, William Shakespeare w for the masses."

True. But Shakespeare gave u glimpse into our souls. The wor reigning communications czar se content to feed our appetites.

BY MARK LANIER

Landler is BUSINESS WEEK's Media edi



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THE PRODUCTIVITY PARADOX: RISING OUTPUT, STAGNANT LIVING STANDARDS

BY ROBERT KUTTNER

There are five intriguing theories as to why dramatic improvements in U. S. efficiency are not translating into faster economic growth. Each holds a slice of the truth

Today's puzzler: Where did all the productivity go? Human work has become ever more efficient, thanks to the microelectronics revolution. My computer makes me a more productive writer. Factories now turn out better products with fewer workers. Even in the service sector, checkout clerks ring up twice the sales in half the time, using optical scanners.

But if the same labor can generate so much more output, why are living standards virtually stagnant? Why is a dramatic improvement in the productivity of capital not translating into faster economic growth? And why did the rate of productivity growth actually fall during the 1970s and 1980s?

There are five possible explanations, depending on how you frame the problem:

■ **The lagging service sector.** As Princeton University economist William Baumol has long noted, productivity growth in service jobs lags behind the growth in manufacturing productivity. Taxi drivers perform the same task today as they did in 1920, despite better cars. They may even do it more slowly, because of traffic jams. While advanced physical capital does make some service jobs more efficient, the waiters, nurses, and barbers simply do not become more productive over time, despite technological breakthroughs. So, as we become more of a service economy, our overall productivity growth will slow. Moreover, as other people's wages rise, reflecting improvements in the equipment they work with, service workers may actually become overpaid relative to their own static productivity, as their wages rise in tandem with living standards generally.

■ **Unmeasured quality gains.** An intriguing explanation is that we are actually living better than the statistics admit. Economist James K. Galbraith of the University of Texas at Austin, the father of two small children, observes that a teddy bear with a built-in cassette-player is neither more teddy bear nor better teddy bear. It is an entirely different product. But if it costs the same as an old-fashioned teddy, the consumer gets the benefit of an innovation. Similarly, if a compact disk costs $12.95, that is roughly the same in real dollars as the $2.95 that a long-playing record cost in 1953. So if we spend, say, the same 1% of our income on recorded music in 1993 as we did in 1953, we are unconsciously choosing to spend it on technically better audio rather than on other amenities—but we may not experience it as an explicit improvement in living standards or even as a conscious choice. The same is true of everything from bigger-screen, higher-resolution televisions and Ford Tauruses that don't break down to ta free-range chickens.

■ **Income distribution.** In the 1980s, more half the growth in real income went to th 1% of the population. This not only a how the fruits of productivity gains are s but also imposes some real economic Economist David M. Gordon of the School for Social Research contends that disintegration has necessitated a dramat crease in what he terms "guard labor"—v ers in the public and private sector hir compensate for social breakdown. The hiri guard labor and the process of deterrin resting, and incarcerating lawbreakers nothing to real wealth, but it soaks up m

Moreover, if ordinary people have flat chasing power, investment in new tech gy will be retarded for lack of customer vestment follows purchasing power. Econ Leslie Nulty of the United Food & Comm Workers International notes that despite cal scanners, the number of workers in s markets has not declined. Why? Becaus supermarkets, seeing where the new pur ing power lies, have added gourmet and cialty departments—whose low-product workers fall into the Baumol category: offer personal service to shoppers rich en to buy expensive or exotic items, just as cers did in 1893. Globalization only compo the problem: As U. S. factory workers come more productive, they can't reap gains, lest the jobs migrate to areas of ch er labor.

■ **Automation.** In the early 1960s, econo worried that automation would create was termed "technological unemploym That crisis never materialized, however cause the 1960s were a decade of 4% ar growth, which kept generating jobs and tomers for the new technology. But with 2% growth of the 1990s, automation does net job displacement, and high unemploye waters down society's overall rate of pro tivity. So to maximize the conversion of ductivity gains into living standards, we high growth and full employment.

■ **Delayed action.** According to techno mists such as George Gilder, some latent nical improvements are about to bear f U. S. leadership in software is only now s ing to bring improvements in productio the shakeouts and restructurings of the 1 may mean dramatic gains in the 1990s.

Each of these views, I think, contai piece of the truth. President Clinton's lenge is to help America translate the gai the factory floor into broadly improved li standards.

ROBERT KUTTNER IS CO-EDITOR OF *THE AMERICAN PROSPECT* AND AUTHOR OF *THE END OF LAISSEZ-FAIRE*

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BY GENE KORETZ

IS JOB GROWTH ABOUT TO PICK UP STEAM?

Despite continued announcements of future layoffs by major corporations, the statistical signals are flashing green for U. S. employment gains and the overall economy, according to Columbia University's Center for International Business Cycle Research.

The CIBCR says that its leading employment index—made up of such components as the workweek, initial unemployment insurance claims, the layoff rate, and part-time employment—rose sharply in December for the third month in a row, hitting its highest growth rate since the recovery began in early 1991. The center's short and long leading indexes of U. S. economic activity also both posted healthy increases.

"The outlook," says CIBCR Director Geoffrey H. Moore, "is for a continued expansion, at least through 1993, with notable improvement in the employment situation in the next few months."

WHY LOWER ENERGY PRICES CAN BE A MIXED BLESSING

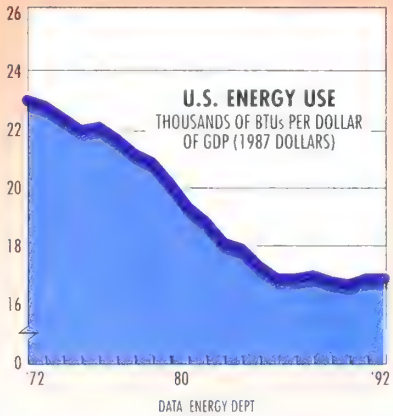
From the most meaningful perspective to most Americans—that of their pocketbooks—the overall trend in energy costs in recent years has been a blessing. Energy prices rose just 2% last year, helping to hold the consumer price index to a 2.9% gain, its smallest in six years. On an inflation-adjusted basis, energy prices are not much higher today than they were in 1987. And real gasoline prices are lower than they were in the mid-1970s.

The downside to this picture is the impact on energy efficiency. In 1972, the year before foreign oil producers quadrupled the price of oil, the U. S. economy consumed 22,900 Btus of energy per dollar of gross domestic product (1987 dollars). By 1986, after more than a dozen years of painful adjustment to higher energy prices, continued emphasis on energy efficiency and conservation by consumers and business had cut U. S. usage per unit of economic output by more than 26%.

Since the oil price collapse of 1986, however, years of relatively cheap energy prices have brought the march toward greater energy efficiency to a virtual halt (chart). And that has stymied efforts to temper the indirect social and economic costs associated with energy use: increased dependence on foreign oil, which retards progress in cutting the trade deficit, and pollution and environmental damage—including the uncertain but potentially catastrophic effects of global warming.

All of this helps explain why the Clinton Administration is leaning toward some sort of energy tax, both to help cut the deficit and to move toward meeting environmental and trade goals.

ENERGY EFFICIENCY: NO GAIN SINCE 1986



DATA: ENERGY DEPT

"The best time to impose an energy tax," says economist Mary Novak of DRI/McGraw-Hill, "is when energy prices are relatively low and quiescent."

That certainly seems to be the outlook over the next few years. Although a new oil price surge cannot be ruled out at a time of global tensions, DRI/McGraw-Hill economists believe that "the effects of stronger world demand for oil will be largely offset by increased worldwide supplies in coming years, restraining real oil prices through 1995." In fact, they warn that an oil price collapse is possible if Iraqi oil exports resume quickly and OPEC fails to cut output to accommodate their return.

THE FED TAKES A FANCY TO LONG-TERM DEBT

Several weeks ago, BUSINESS WEEK pointed out that the Treasury was likely to reduce its issuance of longer-term debt in favor of shorter maturities. If successful, this strategy would tend to put downward pressure on long-term interest rates and thus both reduce the federal deficit and stimulate capital investment by business and home purchases by the public. Since then, Laura D. Tyson, incoming head of the Council of Economic Advisers, has confirmed that such a move was under consideration, and the markets have responded by pushing long rates lower.

What's been less noted, however, is that the Federal Reserve has been pursuing a similar strategy by buying more longer-dated securities as it seeks to meet the economy's demand for liquidity and facilitate monetary growth. Economist Robert DiClemente of Salomon Brothers Inc. points out that securities bearing coupons beyond five years accounted for 25%, or $7.7 billion, of the Fed's net purchases last year. That compares with only $1.2 billion in 1991, the actual liquidation of its longer-term holdings in 1988 through 1990.

Looking at the year ahead, DiClemente predicts that the Fed "will continue to provide secondary support in the longer end of the market."

INSIDERS ARE SELLING—BUT THE BIG QUESTION IS WHY

Are insiders losing confidence in the stock market? Last week, the *Vickers Weekly Insider Report* noted that the average eight-week ratio of sales to purchases of stock by corporate insiders had jumped to 3.29, and in the latest reporting week the sell-buy ratio has risen again, to 3.81 (page 133). Since any ratio above 2.25 suggests that the market is headed for a decline, the latest numbers are hardly reassuring. "We have been recording an unsettling loss of enthusiasm among insiders for shares of their own companies for some weeks now," says David Coleman, who tallies the ratio.

The catch, of course, is that the rise in recent weeks mainly has been reflecting insider behavior in December. Thus there's a possibility that the surge in sales is a result of insider attempts to realize income in 1992 and avoid a likely rise in marginal income tax rates this year. But Coleman argues that executives anticipating healthy capital gains in their holdings would be unlikely to bail to avoid a five-percentage-point rise in their tax bite. "We're not convinced this is simply tax avoidance," he says.

The moment of truth will come next month. Since all January insider trades must be filed with the Securities & Exchange Commission by Feb. 10, Coleman expects his sell-buy ratio to start reflecting January trades by mid-February. "If the ratio is still significantly above 2.25 by the end of the month," he says, "investors should be wary."

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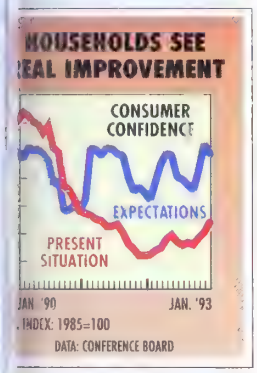
RUARY 8, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

REENSPAN AND CLINTON OULD PLAY SOME SNAZZY DUETS

Undoubtedly, the most remarkable link between President Bill Clinton and Federal Reserve Board Chairman Alan Greenspan is the saxophone. In e 1940s, Greenspan earned a living wailing away with e Henry Jerome band at Childs' Paramount restaurant New York City. The question now arising, especially in e financial markets: Will Clinton and Greenspan make autiful music together on economic policy?



Chances for a surprising amount of harmony between the Democratic White House and the Republican Fed are rising. The common theme is deficit reduction. A specific "deal" to swap deficit cuts for lower interest rates, hinted recently, is probably a stretch. However, if the Administration shows that it is truly committed to stemming the flow of red ink—by fashioning a ıg-term, ironclad package—the Fed clearly will be less clined to raise rates than it would otherwise be as the pansion builds.

Greenspan was careful to give at least the appearance accommodation during his congressional testimony on n. 27. "Cooperation is already accelerating between myself and other members of the Federal Reserve Board and e new Administration," he said. What that means in pol- terms, however, is yet to be seen.

EXPECT LITTLE FISCAL STIMULUS

So far, Clintonites such as Treasury Secretary Lloyd M. Bentsen are hitting all the right notes on the necessary "sacrifices," including talk of an energy tax (page 28). so, they are committed to only a small dollop of pump- iming, $15 billion to $20 billion, for fiscal 1993. Besides, me of that stimulus will be offset by this year's smaller x refunds, resulting from last year's cut in the amount taxes withheld from workers' paychecks.

One reason for such a modest stimulus package is that e economy may not need it. In particular, the latest ord from consumers is that they feel more bounce in the onomy (chart). Although the Conference Board's index of nsumer confidence edged down slightly in January, to , after two strong gains, households gave a decidedly ore favorable assessment of prevailing conditions for e third consecutive month. And most important, the ard reported a fairly large decline in the number of peo- e who say that jobs are "hard to get."

All this has not escaped the attention of the bond market, which is in constant fear of the potential inflationary consequences of $300 billion yearly deficits through 1997, as recently projected by the Bush Administration. The latest numbers from the Congressional Budget Office look even worse; CBO Director Robert D. Reischauer called them "grim" in testimony on Jan. 26.

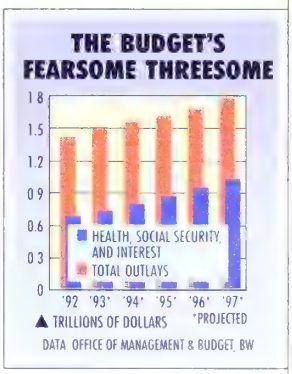
The bond rally on Jan. 25, on the heels of Bentsen's hawkish words on deficit-cutting, pushed the yield on 30-year Treasury bonds to a six-year low of 7.19%. Also fueling the rally: growing speculation that the Treasury will sell fewer 30-year bonds. And the cardinal bond-market fundamental—inflation—looks fabulous, especially in light of moderate economic growth, productivity gains, and the slow pace of labor costs that was evident in the government's latest employment-cost index.

THE BIG 'IF' FOR THE BOND MARKET

The bond market will provide the best clues to how Clinton and Greenspan are getting along, because the market and the Fed share the inflation worries associated with the deficit. That's why long-term interest rates are so unusually high relative to short-term rates.

Historically, long rates have averaged about 3% above the inflation rate. So, with inflation at 3% currently, long rates should be closer to 6%, not greater than 7% as they are now. The difference: The market has built in a deficit premium to cover the added inflation worry.

The bond market seems to be telegraphing a further sizable drop in long-term interest rates if the Administration can prove that it can pull off, simultaneously, more spending on various types of investments and credible deficit reduction. But that's still a big "if."



The dialogue on spending cuts has not even begun, and reining in outlays will be key to Clinton's success (chart). Greenspan urged that any lasting deficit reduction must be concentrated on the spending side. "Unless you bring down expenditures," said the Fed chief, "you have to increase taxes every year."

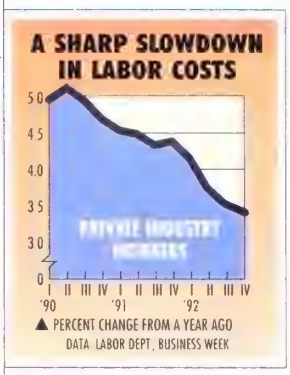
To that end, White House Budget Director Leon E. Panetta has said that the Administration plans to cut $2 in spending for every $1 in new taxes. That could be tough. The Bush projections, which understate the problem, show that by 1997 three rapidly growing, mandatory

items will account for nearly 60% of all outlays: health care and Social Security, which are politically sensitive, and interest on the national debt.

The real Bill Clinton will finally stand up on Feb. 17, when he outlines his economic plan in the State of the Union address. The numbers will have to add up by mid-March, when Clinton is expected to submit the details of his fiscal 1994 budget.

COMPANIES REIN IN THE RISE IN BENEFITS

The big question for the outlook, of course, is how the policy jam sessions along the Potomac will resonate outside the Beltway. Higher taxes and some entitlement cuts will temper consumer spending. However, a deficit-reduction package that eases inflation fears and lets some air out of long-term interest rates would further lighten the debt burdens of consumers and businesses. And it would be a plus for home buyers.



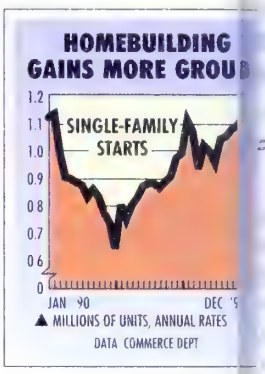
Even without a deficit plan, the inflation picture for 1993 was already glowing because of the subdued pace of demand and the downward tilt of labor costs. Employment costs in private industry rose by 0.9% in the fourth quarter. Over the past year, wages and benefits have risen just 3.5%—the smallest gain in five years (chart).

Weak labor demands have enabled companies to keep a lid on pay hikes. Wages and salaries rose by 2.6% for 1992, down from 3.7% in 1991. The drop in wage growth, along with the recent gains in productivity, suggests that the labor cost of producing a unit of output in 1992 grew at the slowest rate in 27 years. Unit labor costs in 1993 should remain equally tame—a key reason for the excellent inflation outlook.

Not surprisingly, given the publicized staff cuts among big corporations, white-collar workers are bearing the brunt of the downshift in labor costs. Salaries of executive and managerial occupations rose by just 1.6% in 1992. That's down from 4.2% for 1991, and even below the 2.8% pace of blue-collar wages in 1992.

At the same time, companies are trimming the growth of benefits. Benefits for private-industry workers rose 5.2% in 1992, down from their peak of 7.1% hit three years ago. According to the Labor Dept., the slowdown in pay is causing a similar drop in benefits tied to wages. Plus, medical-insurance costs have decelerated because companies are either dropping health benefits entirely or shifting premium payments to workers.

Low inflation will help drop the floor beneath long-term interest rates. That, plus the expected rise in incomes, suggests that the housing upturn will continue into its third year.



Housing ended 1992 on a high note. Housing starts increased by 5.5% in December, to an annual rate of 1.3 million. Single-family starts rose for the fifth straight month, advancing by 3.7% to a 1.13 million pace, the highest level in nearly three years (chart). In addition, sales of existing homes increased by 5% in December, to a shade over 4 million at an annual rate, the highest pace since mid-1979.

Cheaper mortgages and better vibes from the economy are rousing home buyers. The fixed rate on a 30-year mortgage was 8.35% in December and slipped to 8.09% in the week of Jan. 22, according to HSH Associates.

Mortgage rates, and long rates generally, could fall even further this year if the White House proves to be in tune with the Fed on the matter of deficit reduction. If so, Clinton, with Greenspan's help, might just be able to jazz up this economy in 1993—and beyond.

THE WEEK AHEAD

NAPM SURVEY

Monday, Feb. 1, 10 a.m.
The National Association of Purchasing Management's index of business activity likely rose to 56.5% in January, from 55.4% in December, forecast economists surveyed by MMS International, a division of McGraw-Hill Inc. The expected reading of the NAPM index would be the highest in 4½ years.

CONSTRUCTION SPENDING

Monday, Feb. 1, 10 a.m.
Outlays for construction projects probably increased by 0.5% in December. That's suggested by the healthy gain in homebuilding at yearend. Construction spending has risen strongly for three consecutive months, including a 2.1% jump in November.

LEADING INDICATORS

Tuesday, Feb. 2, 8:30 a.m.
The government's composite index of leading indicators—designed to foreshadow the economy's path—probably rose by 0.9% in December. The index was up 0.8% in November.

NEW SINGLE-FAMILY HOME SALES

Tuesday, Feb. 2, 10 a.m.
The MMS report projects that new home sales rebounded by 5% in December, to an annual rate of 593,000. Home buying had plunged 8.3% in November, but the strong showing of existing-home sales suggests a turnaround at yearend.

FACTORY INVENTORIES

Thursday, Feb. 4, 10 a.m.
Manufacturers probably cut inventories by a small 0.2% in December, after a 0.5% drop in November.

EMPLOYMENT

Friday, Feb. 5, 8:30 a.m.
The MMS report forecasts that nonfarm payrolls increased by 100,000 in January. If so, that would be the strongest job gain since a federal summer-job program for teenagers temporarily lifted employment by 171,000 in July. Even with the healthy addition of new jobs, though, the January unemployment rate is expected to remain 7.3%, the same as in November and December.

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AKERS: TIME FINALLY RAN OUT

IBM AFTER AKERS

NOW, A BOARD THAT ALWAYS FOLLOWED MUST LEAD

It's a headhunter's dream come true. John F. Akers' cataclysmic decision on Jan. 25 to step down as IBM's chairman and chief executive to give someone else a shot at reviving the world's largest computer company has set in motion a star search the likes of which Corporate America has never seen.

The casting isn't easy. Everybody seems to have a favorite candidate. They range from a handful of insiders to dozens of outsiders, including General Electric Co.'s Jack Welch and—are you sitting down?—Ross Perot.

Perot, the man with a plan to save America, would find this perhaps a tougher assignment. After all, Akers spent much of his seven years on the job administering a series of turnaround plans, none of which took. With his latest program—based on breaking IBM into 13 "Baby Blues"—showing few signs of doing the trick, Akers finally decided to call it quits. The announcement was sudden, yet the IBM chairman was not fired, insists James E. Burke, retired chairman of Johnson & Johnson and the unofficial spokesman for IBM's 14 outside directors. "He really was not. If he was fired, I wouldn't be talking to you," Burke told BUSINESS WEEK.

Until mid-January, Akers had seemed determined to see the $64 billion computer giant through its crisis, or at least to stay on until December, 1994, when he will reach IBM's customary retirement age of 60. But IBM's stunning $4.97 billion loss in 1992—the biggest in U.S. corporate history—changed all that.

INVESTOR POWER. Following the Jan. 15 announcement of the record red ink, investor and public pressure for Akers to step down reached a fevered pitch. "I doubt he was influenced by the press though I tried to persuade him not to be," says Burke. In fact, the public criticism would have been dangerous to ignore, outsiders say. "The public speculation about his survival had weakened his position quite a bit," says Compaq Computer CEO Eckhard Pfeiffer.

It also made it harder for the IBM board to stand up to investor groups such as the United Shareholders Association (page 93). The group had plans to place four proxy proposals before IBM's annual

INSIDERS AND OUTSIDERS WHO MIGHT

ROBERT LA BANT
The marketing chief's name is among those mentioned most often

JAMES CANNAVINO
A techie, he would be the most radical inside choice

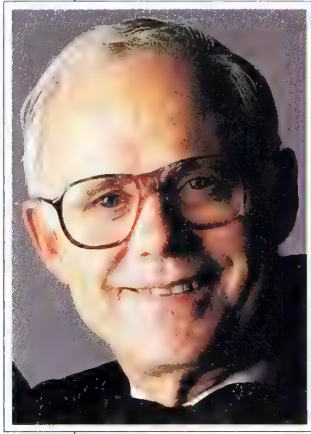
MICHAEL ARMSTRONG
Now the head of Hughes Aircraft, he could be called in

meeting: It wanted to split the CEO l chairman's job, form a nominating ımittee strictly of outside directors, nge executive-pay formulas, and set a board committee to evaluate man- ement performance.

Burke says even the directors were ounded by the company's dismal rth-quarter performance, which was ught on by weak European sales and eep decline in sales of minicomputers mainframes (page 106). Until they e briefed on the results, the rd "didn't realize how bad ıgs were," Burke says. As in- tors' faith in an Akers-led naround dwindled, IBM's stock k to a 17-year low, below 46. kers tipped his hand to a few rd members in mid-January. ring the week of Jan. 18, his ple warned some directors t the subject of the Jan. 25 rd meeting would be the CEO's Burke says Akers also dis- sed his thoughts with a few nbers directly. "As I remem- it, I think it was a process in ch he was kind of thinking out l and talking about what he was ıking about doing," Burke says. In end, Akers decided his time was up. hink he came to the conclusion that company had lost credibility . . . that company would be better off . . . to ve in a CEO who perhaps could get ıgs done faster or may have a differ- approach," says Burke.

After Akers announced his decision at Jan. 25 meeting, there was "spirited ussion," Burke says. But Akers was ry specific and adamant." At the eting, directors also replaced Chief Fi- cial Officer Frank A. Metz Jr. with retiree Paul J. Rizzo, shifted President Jack D. Kuehler out of daily operations, and authorized a 55% cut, to $1.21, in IBM's quarterly dividend. After the work was done, Akers sat down to dinner with several board members, Burke says.

OUTSIDER? For the post-Akers era at IBM, Burke and the other six outside directors on his search committee may go where no IBM board has gone before—outside for a CEO. "It's fair to say some new blood would be better," says William H. Gates III, chairman of Microsoft Corp. "But I will be surprised if they pick somebody outside. It's so non-IBM." Of course, he notes, Akers' decision was also astonishingly non-IBM. "IBM's such an orderly company. It has such a calm, steady way of making decisions and moving forward. Their succession has always been very well planned and straightforward," says Gates.



Was Akers fired? 'He really was not,' says outside director James Burke

With a self-imposed 90-day deadline, the IBM board, never known for its activism, must act quickly. Who do directors believe can lead IBM? Perot, most IBM watchers say, is pretty far-fetched. Yet Dee Soder, president of consultants Endymion Inc., says the Texas billionaire and ex-IBMer is one director's candidate. Since the formal board meeting, directors have contacted headhunters and have been chewing over the names of any number of outsiders—itself an indication of the sea change under way at IBM. During his tenure, Akers eliminated 100,000 jobs, drastically reorganized the company, and split the personal-computer division into a separate unit. But the company's culture remains intact, say analysts and former IBMers.

Now, only an outsider may be willing and able to revolutionize IBM. "An outsider would be seen to have a much stronger endorsement by the board," says Pfeiffer, who was installed as Compaq's CEO in October, 1991, after a boardroom coup ousted founder Rod Canion. An outsider would have an easier time, for example, ordering IBM's first-ever layoffs.

Burke says the board also will look at IBM insiders for a replacement. But those pickings are slim. Most of the leading candidates have left over the last few years, and the remaining executives may not have the authority to effect wrenching changes. The names most commonly bandied about are Robert J. LaBant, 47, IBM's marketing head, and James A. Cannavino, 48, who heads the personal-computer and workstation operations.

Cannavino would be the most radical inside choice. He came up from the technical staff, rather than from the marketing side, as other IBM CEOs have. He even lacks a college degree. But he does have the respect of the outside world. "He's one of those young guys who seem like they are working for an entrepreneurial company," says Gianluca Rat-

HELM AT BIG BLUE

ROT
e favored by d member, he a long shot

JOHN SCULLEY
The Apple Computer chairman is a proven visionary

ANDREW GROVE
Intel's chief executive is a longtime Big Blue supplier

DAVID KEARNS
As chairman of Xerox, he led the company's turnaround

CHARLES EXLEY
NCR's ex-chairman has experience running a complex organization

tazzi, president of Parallan Computer Inc., an IBM partner.

Of course, there are no candidates who have run a technology company as big and complex as IBM. The board is "going to have to have the guts to go with someone who doesn't have the experience but who is going to be a leader, a visionary for the future," says G. Glenn Henry, a 21-year IBMer and now an executive at Dell Computer Corp.

That could be anyone from Apple Computer Chairman John Sculley to Motorola Chairman George M. C. Fisher. Both, says Burke, are in the running. Also under consideration are Robert Kavner of AT&T, Charles E. Exley Jr., former chairman of NCR, and John A. Young, retired chairman of Hewlett-Packard. Some outsiders speculate that Michael Armstrong, an IBM veteran who left last year to head Hughes Aircraft, could be asked back. Other popular guesses include former Xerox chief David Kearns and Intel's Andrew G

Once a new CEO is chosen, board's job is just beginning," says Pound, a Harvard professor. "T kinds of situations can be seen as ing the books on the past and not ch ing the future in any meaningful w In other words, the cataclysm at IBM only just begun.

By Catherine Arnst in New York Joseph Weber in Philadelphia, with bu reports

EXECUTIVE SUITE

WESTINGHOUSE STILL NEEDS TO CLEAN HOUSE

Its new leaders must do what Paul Lego couldn't: Sell several units, fast

In his penthouse office, Westinghouse Chairman Paul E. Lego used to keep an enormous brass telescope aimed across the Monongahela River. It symbolized his "vision" at the company, he joked. But in Lego's rocky 2½ years at the helm of the Pittsburgh giant, he saw little more than a river of red ink, most of it pouring from Westinghouse Credit Corp. Losses in the finance unit were his downfall. On Jan. 27, two weeks after failing to sell its assets to GE Capital Corp., Lego emerged from a board meeting without his job.

He and his successor, former Amoco Chairman Richard M. Morrow, say he resigned. But sources close to senior management say that the Westinghouse Electric Corp. board, led by Morrow, 66, and former Defense Secretary Frank C. Carlucci, pushed Lego out. Gary M. Clark, a 36-year Westinghouse veteran, stepped in as acting chief executive.

Shareholder activists applauded the moves. "Obviously, [directors] decided they needed a change," says DeWitt Bowman, chief investment officer of the California Public Employees' Retirement System. "That's evidence to us that they are thinking in the right direction." And Westinghouse stock rose ¼, to 14, on the day Lego's exit was announced.

LEGO: SOURCES SAY A REINVIGORATED WESTINGHOUSE BOARD FORCED HIM OUT

'PROBLEMS.' But as Lego said at a farewell press conference, Clark and Morrow "inherit a complex set of problems." First, the new leaders must sell the divisions put on the block last November, including the troubled credit unit, the electrical-supply company, and the power-transmission business. If they fail, they'll either have to raise equity capital—a tough prospect—or sell off company jewels, such as the Group W broadcasting units.

Two other businesses that aren't on the block, electronic defense systems and nuclear-power generation, face declining prospects. Westinghouse already plans to close a state-of-the-art radar plant in northern Mexico in February. In the coming year, Westinghouse's new chiefs may attempt to sell the defense business or merge its operations with those of another big contractor.

Salvaging the nuclear business may be harder. Lego maintained to the end that a large-scale conversion to nuclear energy was "just a matter of time." He planned to be ready for a big build nuclear generating capacity with AP600, a small, "off the shelf" p plant. Now, Clark or his replacer must try to sell the plants to a skep population with easy access to chea

Lego's downfall began last aut as Westinghouse stock plunged ami mors of an imminent bankruptcy fi Shareholder activists were pressing board for action. He bought time in vember by announcing a major res turing. Its highlights: the sale of b ness units representing one-third of company's $12 billion in revenues. promised to sell the credit unit qui and predicted he could get 37¢ on dollar for its troubled portfolio. At time, says one source close to the pany, the directors gave him until 27, the date of the next board mee to show results.

LOW BIDS. Lego couldn't produce. To pease creditors and shareholders, needed to promise fast sales. But po tial buyers took advantage of Le haste to lowball their bids. Prices of assets on the block plummeted.

Meanwhile, Lego was trying to the credit unit to General Electric. according to a source close to the ne ations, several developers of West house-funded projects threatened to the company with a barrage of laws if the deal with GE went through. M agement, says the source, tried to GE, which ran out of patience and b off the talks. With Clark and Morrow charge, GE may return to the bargai table, says a source familiar with companies.

Lego's fate was sealed on Jan. when Westinghouse announced a $ billion loss for the fourth quarter projected weak results through the quarter of this year. By leaving, avoids what promised to be a diffi annual shareholders' meeting in A But even the new team may hav tough go of it at the meeting—especi if they show up dragging Westingho Credit Corp. behind them.

By Stephen Baker and Maria Mallor Pittsburgh, with Michael Schroeder Washington

ING 747s READY FOR EXPORT: BOTH U.S. AND FOREIGN CARRIERS ARE CUTTING ORDERS

OEING CUTS ITS ALTITUDE S THE CLOUDS ROLL IN

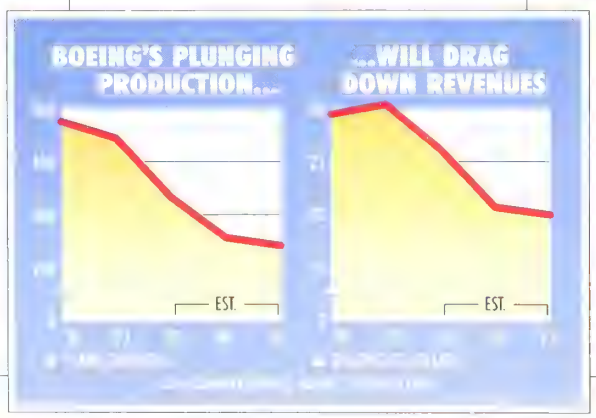
positioning for a strong rebound once the tough times pass

he timing was mere coincidence. But when Boeing Co. announced massive production cuts on the e day that IBM Chairman John F. rs agreed to step down, one had to der: Is Boeing, too, a U. S. titan that lost its grip? Its steeper-than-expect- production cuts, announced on Jan. and the likely loss of 20,000 jobs le that seem possible.

ooks may be deceiving, though. The est U. S. exporter, Boeing has main- ed its historical market share of at t 55%. And while the aerospace busi- s is going through wrenching nges, Boeing is positioning itself for ebound. "We're seeing the seeds n for the next boom," says Donald vett of aviation consultant SH&E Inc.

TIOUS. In the near term, the cuts, ed by tough times for airlines, will deeply into Boeing's sales and prof- The company had earlier slashed pro- tion plans for 737s, 757s, and s. Following deferrals by U. S. foreign customers, the manu- urer cut those further and ed highly profitable 747s to the From peak to trough, the cuts resent a 40% drop. But Boeing sident Philip M. Condit says downturn is less severe than se of 10 or 20 years ago, be- se Boeing was more cautious time about increasing produc- n. Still, NatWest Securities p.'s Nicholas P. Heymann predicts Boeing's revenues will drop to as low as $20 billion in 1994, from $30.2 billion last year (chart). Sales may pick up in 1995, when deliveries of its new 777 begin, but Condit won't predict a turnaround even by then. "Airline profitability, not only domestically but worldwide, will set the timing for a rebound," he says.

Most experts now expect the cycle to turn by the latter part of the decade. But Boeing will have to wrestle with new problems long after orders start climbing again. With major airlines turning short routes over to smaller, regional airlines, the demand for 737s may diminish in favor of smaller, 70- to 90-seat jets. Right now, Boeing doesn't make a plane that small. And with traditional lenders shunning the airline market, Boeing will have to provide more financing for airlines, possibly straining resources for research and development.



But Boeing can maintain its leadership. Already acknowledged to be the low-cost producer, it's cutting costs further by relying heavily on computers for design, reducing costly rework in the factory. The company's willingness to lay off thousands is further evidence that it intends to stay lean. It's even risking friction in its once-pacific relations with its engineers' union. Boeing refuses to sweeten its offer to those employees, despite their one-day strike on Jan. 19.

FOREIGN DIPLOMACY. Moreover, unlike IBM, Boeing does not rely on an outmoded product or face a huge field of fierce small competitors. With a smaller customer base than IBM or General Motors Corp., another ailing giant, Boeing stays closer to the needs of its buyers. Nor is it watching helplessly as foreign companies gobble market share. Boeing delivered 60% of all jets last year and booked at least 60% of all new orders. Its chief rival, European consortium Airbus Industrie, has gained—mostly at the expense of McDonnell Douglas Corp., the No. 3 player, which may exit the commercial-airliner market. "In five years, Boeing and Airbus will have the market to themselves," says Bertrand d'Yvoire, president of Consultair in Paris.

Boeing has also mastered the art of co-opting potential rivals. During the 1980s, it carefully increased the amount of subcontracting work it parceled out to the Japanese. Boeing also buys parts from China, Korea, Italy, and others. By steering revenues to those subcontractors and sharing its expertise with them, Boeing helps drum up business from those countries' state-owned carriers.

All that may be a mere warm-up for the next step. To create the next-generation jet—a "superjumbo" of 600 seats or more—Boeing may eliminate competition altogether. A day after announcing the production cuts, Boeing said the four partners in Airbus would join it in conducting a study on the feasibility of developing the huge jet.

The drumbeat for change doesn't stop there. Encouraged by retired Ford Motor Co. CEO Donald E. Petersen, a Boeing director, Chairman Frank A. Shrontz is pushing his top 15,000 white-collar workers through a course in "world-class competitiveness." A 384-page course manual begins with this from Shrontz: "During the past decade or so, we've seen a number of great American industries surrender their leadership to competitors abroad. It would be tragic if we allowed the same fate to strike the U. S. aerospace industry." With Boeing's recent moves, it hardly seems likely.

By Dori Jones Yang in Seattle and Andrea Rothman in New York

CORPORATE PROFITS

WHAT'S WRONG WITH THIS PROFIT PICTURE?

Fourth-quarter results are way ahead of '91 figures—but '91 was a dog

A warning to readers of BUSINESS WEEK's flash report on fourth-quarter profits: Yes, earnings are up 78% over a year ago—even including IBM's wretched numbers. But that says more about the weakness of 1991's last quarter than the strength of 1992's. For example, in 1991 Nynex Corp. and US West Inc. took restructuring charges of more than $500 million apiece. Both report much healthier 1992 results. Sixteen other companies had similar stories. Eliminate them, and profits overall declined 7% from '91 levels. Wall Street's forecasts were 33¢ a share too high—but only 4¢ if you leave out IBM.

	Current qtr. sales
INDUSTRIALS	**168,691.7**
ABBOTT LABORATORIES	2,096.5
ALCOA	2,452.3
AMERICAN BRANDS	2,289.6
AMERICAN HOME PRODUCTS	2,002.5
AMOCO	7,243.0
BOEING	7,497.0
BRISTOL-MYERS SQUIBB	2,823.8
CATERPILLAR	2,734.0
CHAMPION INTERNATIONAL	1,237.4
CHEVRON	11,400.0
CORNING	996.2
DU PONT	9,280.0
EXXON	30,161.0
GENERAL DYNAMICS	915.0
GENERAL ELECTRIC	17,800.0
GEORGIA-PACIFIC	2,910.0
INLAND STEEL	830.4
KELLOGG	1,420.8
McDONNELL DOUGLAS	4,622.0
MERCK	2,601.1
MOBIL	17,244.0
MONSANTO	1,865.0
PFIZER	1,947.1
PHILIP MORRIS	14,920.0
PPG INDUSTRIES	1,413.3
REYNOLDS METALS	1,345.7
TEXACO	9,702.0
UNION CARBIDE	1,187.0
UNITED TECHNOLOGIES	5,755.0
SERVICES	**26,160.7**
AMERICAN EXPRESS	6,698.7
AMR	3,577.0
BANC ONE	NA
BARNETT BANKS	NA
BEAR STEARNS	631.1
BURLINGTON NORTHERN	1,196.0
CHASE MANHATTAN	NA
CHEMICAL BANKING	NA
CITICORP	NA
CONSOL. FREIGHTWAYS	1,024.4
CRESTAR FINANCIAL	NA
CSX	2,245.0
DISNEY (WALT)†	2,391.4
FIRST INTERSTATE BANCORP	NA

CORPORATE PROFITS

PRATT COULD USE A JUMP

The engine maker's slump means UTC's earnings outlook is dim

Pratt & Whitney Co. has gone from leading light to financial black hole. United Technologies Corp.'s aircraft-engine unit, once the profit leader among UTC's $22 billion array of high-tech businesses, lost $500 million in 1992. That spilled right to UTC's bottom line, as the company on Jan. 26 posted a loss for the year of $287 million, or $2.67 a share. The results include pretax charges of $701 million after accounting for retiree health benefits and restructuring charges. The weaknesses at Pratt also prompted Moody's Investors Service to consider downgrading some $2.3 billion in long-term UTC debt.

The problems at Pratt & Whitney are alarming: Demand for its engines and spare parts is in a tailspin. Parts volume, at $85 million a month, is running less than half the rate of two years ago. Engine orders from its military and commercial customers will be off at least 40% this year, with no recovery in sight. And the airlines it sells to are in deep financial distress—as UTC acknowledged by setting aside $447 million of the overall pretax charges to cover possible bad debts from customers.

In the clearest signal yet that it expects the downturn in the engine business to continue, UTC plans to cut employment at Pratt by 25%, or 10,000 positions, by the end of 1994. But some analysts question whether UTC has closed the full cost of the latest P layoffs—the second in three months year ago, UTC took charges of more t $1 billion associated with Pratt's do sizing. This time, only $70 million is ing charged for a similar restructur "We've got a lot further to go," NatWest Securities Corp. analyst Ni las P. Heymann.

ORDER BLANKS. And not just in term layoffs. Boeing's announcement o 35% cutback in aircraft production recent deferrals of plane purchases United Airlines and Northwest Airl suggest it will be some time before airline industry will be buying la quantities of engines or parts (page The latest Boeing cutbacks affect craft—widebodies such as the 747 767—on which Pratt has been a ste supplier of engines.

Even if the airlines do start orde

% chg.	Est. EPS (11/12)	Reported EPS	Diff.
+86	0.92	0.83	−0.09
+11	0.43	0.42	−0.01
NM	0.76	0.57*	−0.19
+8	1.12	1.15	+0.03
−3	1.29	1.16	−0.13
+258	0.84	1.10	+0.26
−6	1.16	1.11	−0.05
NM	1.10	−0.08	−1.18
NM	0.35	−0.02	−0.37
NM	−0.23	−0.38	−0.15
NM	1.19	3.30	+2.11
−60	0.51	0.18	−0.33
NM	0.68	−0.25	−0.93
+25	1.00	1.12	0.12
NM	2.05	4.92	+2.87
+6	1.61	1.57	−0.04
NM	0.05	1.31	+1.26
NM	−0.97	−2.15	−1.18
+8	0.60	0.54	−0.06
+452	2.71	2.04*	−0.67
+15	0.54	0.53	−0.01
+29	1.09	1.25	+0.16
NM	0.33	−3.35	−3.68
NM	0.85	0.83	−0.02
+56	1.34	1.34	——
+116	0.79	0.64	−0.15
NM	0.36	0.18*	−0.18
−3	1.15	1.11	−0.04
NM	0.10	0.12	+0.02
NM	1.10	0.68*	−0.42
NM	0.70	0.69	−0.01
−66	0.51	0.15	−0.36
NM	−0.64	−2.66	−2.02
+63	0.87	0.99	+0.12
+31	0.75	0.28	−0.47
−17	0.54	0.55	+0.01
+106	0.94	1.23	+0.29
+25	0.75	0.87	+0.12
NM	0.93	1.09	+0.16
NM	0.29	0.53	+0.24
NM	0.09	−0.53	−0.62
+282	0.56	0.78	+0.22
NM	1.44	1.47	+0.03
+25	0.44	0.48	+0.04
NM	0.90	0.91	+0.01

	Current qtr. sales	% chg.	Current qtr. profits	% chg.	Est. EPS (11/12)	Reported EPS	Diff
HILTON HOTELS	336.0	+19	26.5	−10	0.68	0.55	−0.13
McDONALD'S	1,828.4	+6	227.9	+14	0.63	0.61	−0.02
MERRILL LYNCH	3,267.5	+5	221.4	+30	1.55	1.97	+0.42
MORGAN (J. P.)	NA	NA	298.0	+11	1.45	1.48	+0.03
NATIONSBANK	NA	NA	234.0	NM	1.20	0.92	−0.28
PAINEWEBBER	836.0	+1	41.4	−12	0.65	0.78	+0.13
PRIMERICA	1,269.0	−6	221.3	+68	1.26	1.32*	+0.06
SANTA FE PACIFIC	632.2	+1	173.9	+430	0.25	0.94	+0.69
SCHWAB (CHARLES)	228.1	+2	25.2	+56	0.25	0.65	+0.40
SUNTRUST BANKS	NA	NA	105.7	+11	0.84	0.85	+0.01
WELLS FARGO	NA	NA	58.0	NM	0.82	0.83	+0.01
TECHNOLOGY	44,287.4	−1	−3,940.0	NM	0.82	−1.41	−2.23
ADVANCED MICRO DEVICES	400.2	+9	69.6	−35	0.57	0.73	+0.16
AMDAHL	745.0	+91	2.5	NM	0.11	0.02	−0.09
APPLE COMPUTER†	2,000.3	+7	161.3	−3	1.34	1.33	−0.01
COMPAQ COMPUTER	1,422.6	+63	89.5	+34	0.86	1.11	+0.25
CONNER PERIPHERALS	620.5	+49	8.5	−36	0.70	0.17	−0.53
CRAY RESEARCH	227.3	−28	−26.5	NM	0.89	−1.00	−1.89
DIGITAL EQUIPMENT††	3,689.4	+6	−73.9	NM	−0.89	−0.57	+0.32
GENENTECH	131.8	+22	6.2	NM	0.03	0.05	+0.02
IBM	19,560.0	−11	−5,463.0	NM	1.68	−9.57	−11.25
INTEL	1,856.8	+54	428.6	+127	1.23	1.97	+0.74
MICROSOFT††	938.0	+38	236.0	+35	0.78	0.78	——
MOTOROLA	3,711.0	+22	181.0	+44	0.65	0.68	+0.03
RAYTHEON	2,395.0	−1	170.0	+8	1.26	1.26	——
TEXAS INSTRUMENTS	1,987.0	+13	78.0	NM	0.60	0.80	+0.20
UNISYS	2,256.4	−8	101.2	+26	0.40	0.43	+0.03
WESTINGHOUSE ELECTRIC	2,346.0	−31	91.0	−47	0.43	0.22	−0.21
UTILITIES & TELECOM	34,069.3	+2	3,391.6	+86	0.77	0.75	−0.02
AMERICAN ELECTRIC POWER	1,292.0	+2	171.2	+33	0.68	0.85	+0.17
AMERITECH	2,843.1	+4	335.5	+68	1.23	1.25	+0.02
BELL ATLANTIC	3,254.2	+3	327.5	+33	0.77	0.76	−0.01
BELLSOUTH	3,910.1	+6	353.4	−9	0.82	0.72	−0.10
CONSOLIDATED EDISON	1,478.8	+10	100.6	+9	0.40	0.39	−0.01
MCI	2,761.0	+13	160.0	+11	0.59	0.60	+0.01
NYNEX	3,308.3	+2	324.2	NM	1.59	1.57	−0.02
PACIFIC GAS & ELECTRIC	2,557.8	−3	205.8	−17	0.47	0.44	−0.03
PACIFIC TELESIS	2,499.0	+1	287.0	+82	0.72	0.71	−0.01
PHILADELPHIA ELECTRIC	983.2	+2	153.9	+67	0.46	0.63	+0.17
SCECORP	1,939.0	0	151.7	+32	0.76	0.68	−0.08
SOUTHERN	1,868.0	−1	167.2	−25	0.46	0.45	−0.01
SOUTHWESTERN BELL	2,722.0	+8	350.0	+11	1.23	1.17	−0.06
US WEST	2,652.8	−12	303.6	NM	0.79	0.73	−0.06

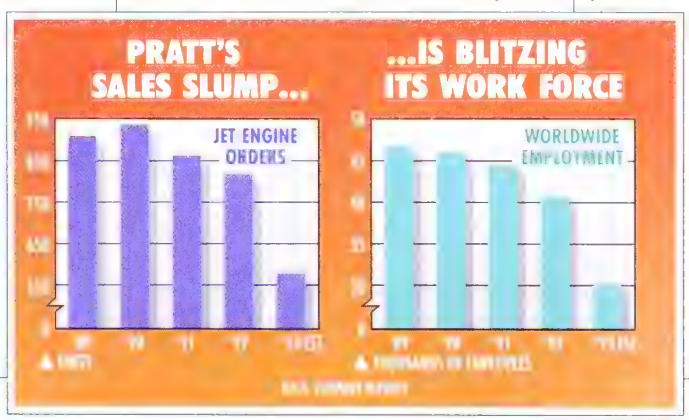
NA = not available NM = not meaningful † First-quarter results †† Second-quarter results * EPS adjusted for special items

DATA: STANDARD & POOR'S COMPUSTAT SERVICES INC., INSTITUTIONAL BROKERS ESTIMATE SYSTEM, BW

in, Pratt's newer engines—the 2000 and PW4000 series—face ag- sive competition from General Elec- Co. and Rolls-Royce PLC. And the y days of key older engines are ably over. Pratt's highly profitable D engine, which powers McDonnell glas Corp.'s MD-80, earns Pratt as h as $500,000 a pop. But where Pratt made 350 of the engines good year and even 160- last year, some analysts ve the company will be y to make 20 this year. old, Pratt has advised an- ts that its output in 1993 be about 430 engines, n 21% from the 547 origi- planned.

its spares business, Pratt faces a difficult future. ines are holding fewer s on their shelves and cannibalizing grounded planes for parts to cut costs. And as older engines are replaced by newer, more efficient units, there is less demand for spares. The loss of spares business is especially damaging to the bottom line, because margins on some pieces reach 75%.

All those negatives add up to a bleak outlook for Pratt in 1993. The early analysts' consensus is that the UTC Power Systems group, which includes Pratt, will make an operating profit of only $160 million this year, down from an estimated $420 million in 1992. As a result, UTC can't expect to make much more than $550 million next year, little better than the $493 million it made this year before restructuring charges.



The pressure is on UTC's other units—including Carrier air-conditioning, Otis elevators, and Sikorsky helicopters—to continue their improvements and keep the big company's nose above water. Not long ago, it was Pratt's job to shore up the weaker performers in the UTC portfolio. But the latest numbers suggest that Pratt won't resume that role any time soon.

By Tim Smart in New Haven

TAXES

IN COLORADO, THEY'LL COPE: IF GAS PRICES RISE, THE SPILLMANS WILL USE THEIR NISSAN MORE

WHOSE OX WILL IT BE, ANYWAY?

Nobody wants to be gored, but new gasoline taxes may work best

Pay more tax for the commonweal? Are you out of your mind, man? Little more than a week into his Administration, President Bill Clinton is busily trying to build support for new energy taxes aimed at cutting the looming $300 billion federal budget deficit. Yet so far, the spirit of self-sacrifice is hardly the response Clinton has called forth. Within milliseconds after aides sent up trial balloons on the topic, consumer and business groups began wrangling over just whose taxes should jump.

Administration officials stress that they haven't chosen an option, or even definitely settled on an energy tax. "Nothing has been ruled out that I'm aware of," says Deputy Treasury Secretary Roger C. Altman. Yet no matter what choice is made—a higher gasoline tax, an oil-import fee, a broad-based energy tax, or a tax on the carbon content of fuel—"there's going to be a fight," predicts William T. McCormick Jr., chairman of CMS Energy Corp., a Dearborn (Mich.) utility holding company.

'SPINACH' TAX. Clinton's easiest option for raising $10 billion to $20 billion from an energy tax—the relatively small sum being talked about—may be a gasoline tax increase of 10¢ to 20¢. For one thing, a gas tax could be sold as a "spinach" tax: hard to swallow but good for you because it encourages conservation. From Uncle Sam's viewpoint, gas taxes are easy to implement, since both federal and state governments already coll them. Besides, gas is relatively che Adjusted for inflation, a gallon of ga line now costs 30¢ less than it did 1978—and sharply less than a gallon bottled spring water.

Best yet, unlike most tax propos higher gas taxes enjoy broad supp from business. Among proponents: Big Three auto makers, Phillips Pe leum, Conoco and parent Du Pont, the American Business Conference group of fast-growing midsize com nies. "You could roll that revenue b into investments in our highways, wh would enhance the mobility of the d ing public and at the same time cre jobs," says Gary C. Marfin, an ene policy analyst at Conoco, which suppo a 10¢-a-year hike over five years to t 50¢ a gallon.

Of course, many businesses, part larly transportation companies, would hurt if the fuels they run on are ta more. At American Airlines Inc., fue the second-largest expense, after lab A penny jump in fuel prices would r costs by $25 million annually. Ameri says it would try to pass on the incre to customers in higher ticket pri Union Pacific Corp., the nation's N user of diesel fuel after the U. S. Na also would be hit hard. Nonetheless, says it would support even a 50¢-a-ga hike if it were used for deficit slashi

Most of all, consumers—a.k.a. ers—don't want to pay more for g Yet even their opposition may be mu Given a choice of new energy taxes, of Americans polled by BUSINESS W from Jan. 22 through Jan. 26 favore gas tax hike of 15¢ a gallon (page Earlier surveys found gas taxes had support. Still, only a broad-based ene tax was less popular, picked by 4 Taxes on oil imports and carbon w favored by 57% and 60%, respectivel

Why rising support for gasoline es? New cars have become more f efficient in the past 10 years. And relatively low price of gas means

TAXING ENERGY: NO EASY ANSWERS

OPTION	ANNUAL REVENUE POTENTIAL	PRO	CON
Increase gasoline taxes	At current consumption, 15¢-per-gallon tax would raise $15 billion	Easy to implement. Saves energy by discouraging consumption	Places burden on rural areas and other regions without public transportation
Fee on oil imports	A $5-a-barrel fee would yield about $11 billion	Could encourage domestic drilling, reducing the trade deficit	Higher home-heating-oil prices hurt the Northeast most
Broad-based energy tax	A 5% energy tax would raise about $18 billion	Promotes conservation	Higher prices throughout the domestic economy. Could lower U.S. competitiven
Tax on the carbon content of fuels	A $15-a-ton charge on carbon would raise about $18 billion	Discourages production of carbon dioxide, a greenhouse gas	Could devastate the coal industry

DATA: CONGRESSIONAL BUDGET OFFICE, BUSINESS WEEK

out of consumers' wallets won't
as much. Despite popular belief, the
of higher gas taxes would be fairly
ıly spread across the U. S. BUSINESS
K calculates that a 20¢ gas tax hike
ld cost the average resident of the
-open mountain states $93 annually,
$22 more than a Northeasterner
ld pay. Roberta K. Spillman, who
hes near Hotchkiss, Colo., says that
as prices rise, she and husband Mal-
ı will economize by using their gas-
gy Nissan pickup more than their
l. "We'll grin and bear it," she says.
the pols go for a big energy tax, is
e an alternative that beats the gas
A few companies say they prefer a
d-based tax on all forms of energy,
ıding coal, nuclear, and hydroelec-
The main impact of such a tax
ld be to encourage energy conserva-
—not a bad idea, since U. S. energy
iency has stagnated since 1987, even
abor productivity has risen. And a
d-based tax also has the advantage
ot favoring one type of energy, such
uclear, over another, such as coal.
ven if consumers prefer them, the
aining options are likely to draw
h stronger opposition from business.
x on the carbon content of fuels, for
ınce, could generate tons of revenue
potentially cut emissions of carbon
ide, which is believed to contribute
ıe greenhouse effect. But it would
ıstate coal producers and hit basic
stries such as steel, where energy
amount to more than 20% of pro-
ion costs. "It's a goofy tax with neg-
effects on production and produc-
y," says Jerry Jasinowski, National
ociation of Manufacturers president.
INDFALL? Many domestic oil and gas
ucers are plugging for an oil-import
saying it would improve U. S. ener-
security. A fee of $5 per barrel of
orted oil, says Kenneth L. Lay, chair-
of Houston-based Enron Corp.,
ld cut imports by 16% by 2000. It
would boost the sagging domestic
ndustry, which has been clobbered
nvironmental regulations.
ıt unless the supply of oil from the
east is threatened, analysts see little
ical stomach for giving big windfall
s to oil producers. What's more, an
nport fee might provoke foreign oil
liers, notably Saudi Arabia, to cut
uction and force up prices. The Sau-
are very concerned about any form
nergy taxes the new Administration
be contemplating," warns a senior
tern diplomat in Riyadh.
inton's bottom line? No tax is likely
in broad support. Unless the rookie
ident can do a dazzling sales job on
ificing for the commonweal, that is.
Michael J. Mandel and Thane Peterson
New York, with Paul Magnusson in
hington, and bureau reports

Business Week/Harris Poll

THE PUBLIC BRACES FOR A HIT

The vast majority of Americans view a tax increase as inevitable, and 52% would accept an increased gasoline tax. That's a change from October, when 38% favored added

gasoline levies. But the energy tax most favored is one on carbon content in fuel.

Whatever new tax they have to pay, 55% want all new tax revenue spent on deficit reduction.

ONE NATION, TWO MINDS

■ The latest projections for the federal budget deficit show that it will rise to over $300 billion in 1993. Do you favor or oppose tax increases to cut the deficit?

Favor ..... **49%** Oppose ..... **48%** Not sure **3%**

CAN'T STOP IT

■ Do you feel that such a tax increase is inevitable or not?

Tax increase inevitable .... **76%** Not inevitable ..... **21%** Not sure **3%**

BADGE OF COURAGE?

■ If broad-based taxes are increased by the Clinton Administration to cut the deficit, would you view this as a politically courageous act or a betrayal of the people who voted for him?

View as courageous act .. **50%**
View as betrayal **43%**
Not sure **7%**

TOP CHOICE: TAX COAL

■ One possibility now being discussed for raising revenue is an increase in energy taxes. Let me read a list of possible energy taxes. Would you favor or oppose...

	Favor	Oppose	Not sure
A tax on carbon, an element in many forms of energy, especially coal, which could devastate the coal industry but significantly cut carbon-dioxide emissions and so help the environment	60%	36%	4%
A $5-a-barrel tax on imported oil, which would raise gasoline and home-heating-oil prices 10¢ to 12¢ per gallon but would help reduce our dependence on imported oil	57%	41%	2%
A 15¢-per-gallon increase in gasoline taxes, phased in over time, which would hurt those who drive the most but would encourage energy conservation	52%	46%	2%
A 5% tax on all energy consumption, which would hurt industries that use the most energy and so increase consumer prices, but promote energy conservation in general	44%	53%	3%

SPEND IT ON THE DEFICIT . . .

■ If these taxes were increased, would you want all of the money spent on deficit reduction or not?

All spent on deficit reduction .... **55%** Not spent ... **43%** Not sure **2%**

. . . OR ON SCHOOLS

■ If some of the money were to be used for other purposes, should it be for one of the following or not?

	Used	Not used	Not sure
Increased spending on education and training	81%	18%	1%
Increased spending on the infrastructure, such as roads and bridges	59%	39%	2%
A middle-class tax cut	52%	46%	2%
A cut in the Social Security taxes that every working person pays	31%	67%	2%

Edited by Christopher Power

Survey of 1,224 adults conducted Jan. 22-26, 1993, for BUSINESS WEEK by Louis Harris & Associates Inc. Results should be accurate to within three percentage points.

MANUFACTURING

GE'S APPLIANCE PARK: REWIRE, OR PULL THE PLUG?

Its Louisville complex needs serious overhauling—or else

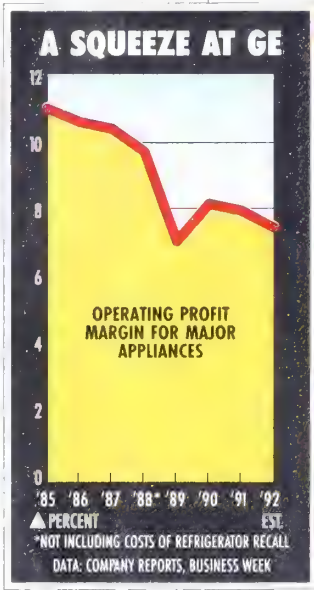
General Electric's mammoth appliance-making complex near Louisville has long been a showplace for everything from the newest in dishwasher and refrigerator technology to the hottest techniques in automated manufacturing. But Appliance Park, as the five sprawling factories are known, now faces a crucial decision that could mean a new lease on life—or signal its eventual doom.

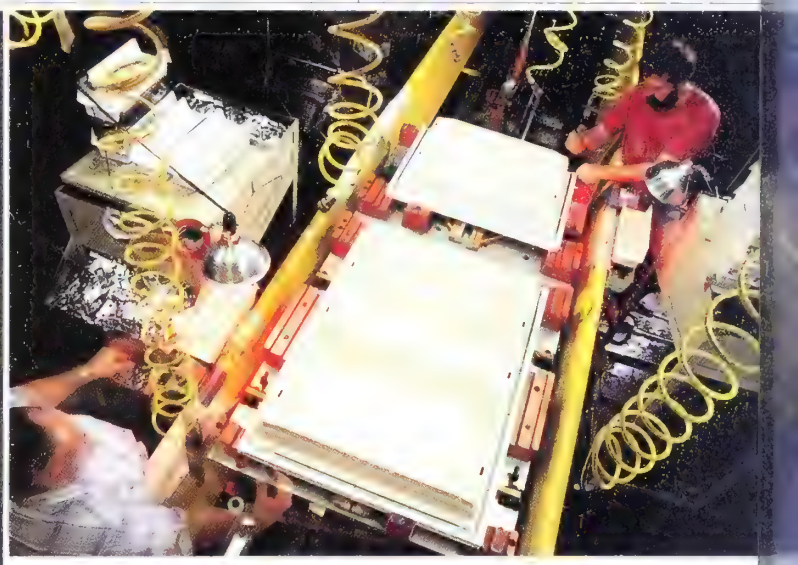
As early as Feb. 1, John F. Welch Jr., chairman of GE, based in Fairfield, Conn., will decide whether to authorize an overhaul of the park's antiquated washing machine production. If Welch decides against the investment, which could run up to $70 million, the company is set to slash 1,500 jobs and let an outsider make its washers.

Appliance Park's problem is clear enough. General Electric Co.'s appliance unit is No. 1 in refrigerators, dishwashers, and electric ranges. But the 40-year-old Appliance Park, home to 10,000 of GE's 22,000-plus U. S. appliance workers and the supplier of 30% of the company's $5 billion a year in appliance revenues, is losing a "sizable" amount of money, says J. Richard Stonesifer, chief of GE Appliances. He won't quantify further. The worst performer? The washer making operation. GE holds just 16% of the $1.8 billion U. S. market for such appliances and hasn't done a major overhaul of its machines in more than a decade.

MASS RALLIES. Now, with 1994 energy standards for washers prodding GE, it's decision time. "To invest in a place that's losing money makes no business sense," says Stonesifer. But "if we don't make this investment, long-range it puts the viability of the park in question."

That's the message he and GE Senior Vice-President Frank P. Doyle delivered to the work force during dramatic mass meetings on Jan. 15. They were joined by local union leaders and William H. Bywater, president of the International Union of Electronics Workers (IUE), who urged employees to cooperate with GE to improve productivity. "Any habits we have that are counterproductive we should correct," Bywater says he told the crowd. The meetings may already be having an effect. "Everybody is kind of pushing together now," says Rebecca Wells, an assembly-line worker.





WHITE-GOODS WHITE ELEPHANT: READY FOR A $70 MILLION REVAMP

Soon, Appliance Park workers may have to push harder. Stonesifer has been meeting with union officials to hammer out an agreement on work-rule changes. One topic, however, is not on the table: wage or benefit cuts. Stonesifer says that's in keeping with GE's strategy of stressing team systems and worker empowerment.

Unionists give another explanation: They say GE learned a lesson from its motors operation, where wage cuts in 1988 clobbered productivity. "They went from losing a little money to sending out dollar bills with their motors," says Dewey D. Minton Sr., the IUE's chief negotiator at GE.

History may not be on the side of Appliance Park. Since 1990, GE has closed three U. S. appliance factories. And high-cost Appliance Park, where employment is less than half its 1973 peak, hasn't won a big investment since a 1987 refrigerator retooling. That eventually yielded a $290 million aftertax loss after a massive recall.

Still, it's unlikely that GE will withdraw from the washer market altogether. Although GE makes only one-third as many washers as Whirlpool Corp., which holds 50% of the U. S. market, the company probably turns out close to 1 million washers a year, worth roughly $[illegible] million in sales.

MIDDLING RESULTS. If GE declines to invest in Appliance Park, it will likely turn to a partner for producing washers. Logical candidates include No. 2 Maytag Corp. and Frigidaire Co., the market's No. 4 producer. Neither company would comment, and GE wouldn't discuss which companies it is considering.

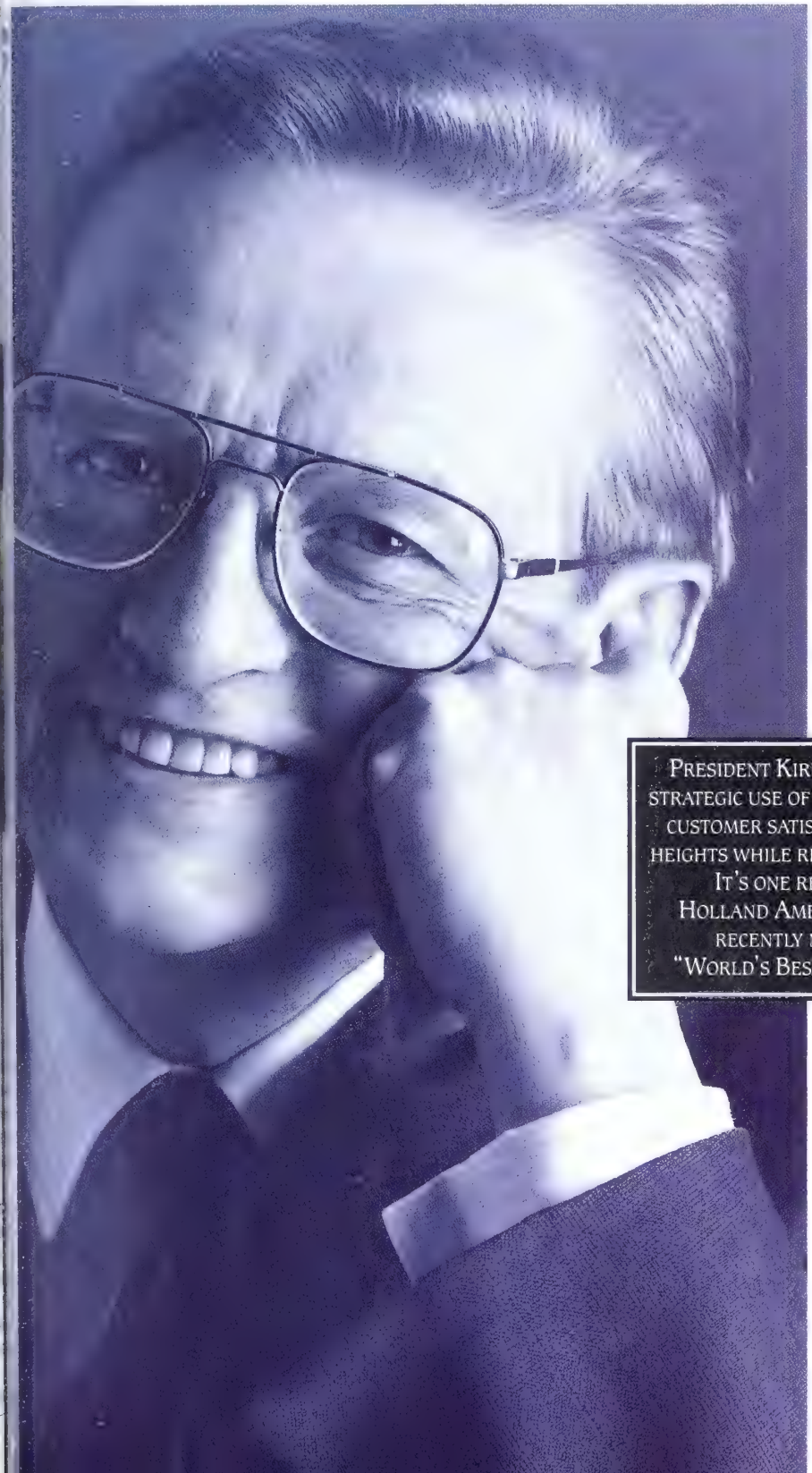
Whatever Welch decides, there's not much at stake than outdated washers. Stonesifer says that washers aren't the only Appliance Park line losing money. The [illegible] has helped drive down margins for the entire appliance unit (chart). In 1992, he says, its operating earnings fell "moderately," down from the $435 million earned in 1991, on a slight sales gain from $5.45 billion.

The slide came despite the first improvement in appliance-industry shipments in five years. Stonesifer, who took over appliances one year ago, blames heavy new-product-development costs. And GE says that net income from appliances has been increasing steadily.

If the union has any say in the matter, Welch will write a check for Appliance Park. "We're going to cooperate to do whatever we can to see that plant stays there," says the IUE's Bywater. If the word from Connecticut is no, however, one of the nation's premier manufacturing sites could become a relic.

By Zachary Schiller in Cleveland

Software Captain.



Holland America Line recently arrived at the ultimate destination.

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Anything else?

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Commentary/by David Woodruff

WHY DETROIT DOESN'T NEED THE PROTECTION IT WANTS

At long last, Detroit's Big Three are singing the same tune on trade issues. Unfortunately, they're all singing *Gimme Shelter*.

Detroit is about to ask the Clinton Administration to slap duties on some Japanese cars. The auto makers say their rivals are selling autos illegally in the U. S. for less than at home. It's Detroit's second recent volley at Japan. Last year, the Big Three charged Japanese carmakers with dumping minivans in the U. S. The Commerce Dept. agreed, although the International Trade Commission ruled that Detroit wasn't damaged by the dumping and refused to impose punitive duties. Now, Detroit is taking a stab at protecting the car market.

BIG BULGE. No one denies there's a serious problem. Japan's trade surplus with the U. S. last year hit $43.7 billion, up 14%. Cars and auto parts accounted for three-fourths of the total. Nothing new there: Since 1986, Japan's annual trade surplus in the auto sector has hovered around $33 million. "The United States has been exporting free-trade philosophy while Japan has been capturing world markets," complains Harold A. "Red" Poling, CEO of Ford Motor Co.

Maybe. But it doesn't follow that the answer is to erect new trade barriers. In the short run, consumers lose as vehicle prices rise. And over the long haul, companies suffer because they stop innovating and fall behind technologically. Take Fiat. Trade restrictions helped keep the Italian giant's home market share at around 60% as recently as the late 1980s. But as Europe's barriers fell, foreign competitors roared in with products that Italian drivers preferred. Fiat's share of the Italian market skidded to 43% faster than you can say "Honda." Now, Fiat is playing a costly game of catch-up, pledging $29 billion to revamp factories and design new models.

Detroit is also being a bit disingenuous, considering that U. S.-made pickups have been protected by a 25% tariff for three decades. That has locked out competitors while Detroit racked up billions in profits, much as Japanese companies did at home. The Bush Administration lifted that tariff from imported minivans and Jeep-like vehicles, but carmakers are pressuring Clinton to reinstate it—even though Detroit dominates those segments and it earns up to $8,000 on each sale.

Trade barriers against Japan's cars will hurt consumers and may cause U. S. companies to suffer over the long haul

Complaints about dumping also miss the main point: Car prices are too high in Japan. The answer is not to raise car prices in the U. S. but to lower them in Japan through increased competition. The fact is, the high-priced Japanese market constitutes an opportunity for Detroit. Yes, there were import barriers in the past, such as severe tax penalties on owners of larger cars. And Japanese companies did use profits from their home market to subsidize their push overseas. But "Japan has no nontariff barriers now, real or imaginary," says a U. S. auto executive based in Japan. Rather than complain about past practices, the Big Three would do better to push their products harder in Japan.

Chrysler Corp. is the one Detroit company that's taking a serious stab the Japanese market. It's offering i first right-hand-drive U. S. model, th Jeep Cherokee, and lowering its pri by $13,000, to $29,800. But the Cher kee's nine-year-old design is no mat for the smooth sophistication of Jap nese vehicles. It is possible to sell U. S made cars to Japanese buyers—Hon Motor Corp. has shown that with th cars it makes in Marysville, Ohio, ar ships to Japan. The difference is th Honda has made the ne essary investments in e gineering the cars spec ically for Japan. Detro by contrast, still relies expensive retrofitting.

For his part, Preside Clinton can help Detro without punishing co sumers. Unlike his pred cessors in the Whi House, he should d mand that the Japane commit to a timetable f reducing their trade su plus. If those goa aren't met within th time allowed, up go U. barriers. He also cou back such policies as co porate tax credits for e ployee training, whic helps companies compe over the long run.

DRUBBING. In fact, lon term competitiveness the best argume against tariffs on Japan. It was, aft all, the drubbing from foreign carma ers that forced the Big Three to g their acts together during the 1980 They swept away layers of unneede management, whipped factories in shape, and dramatically boosted th quality of U. S. cars and trucks. Th results are clear: Last year, Detro gained back two points of mark share—most of it from Japanese rival And Ford's Taurus replaced the Hon Accord as the No. 1 seller.

The inescapable fact is, foreign au makers forced the Big Three to mak better cars at better prices. Handica ping the Japanese can't possibly ha the same effect.

Detroit Correspondent Woodruff cove the auto industry.

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EDITED BY DEIDRE A. DEPKE

HONEYMOON ON WALL STREET

If the recent run of bad press is getting him down, Bill Clinton can take comfort from individual investors, who seem inclined to give him the benefit of the doubt. Discount broker Quick & Reilly surveyed 502 investors and found a surge of bullish sentiment about the Elvis Administration. Here are the details:

	PERCENT
Investors who consider themselves bullish on the economy	52%
Those who considered themselves bulls in the fall of 1992	29
Those who think now is an excellent time to buy stocks	54
Those who felt that way in the fall	39
Those who think cutting the budget deficit should be a higher Clinton priority than investing in jobs	54
Those who think Clinton should offer tax incentives to spur investment	88

DATA: QUICK & REILLY

GM GETS THE BAD NEWS READY

▸ It's almost time to close the books on 1992 at General Motors. GM managers have been haggling about the size of proposed yearend write-offs to be presented to the board at its Feb. 1 meeting. A review by J.P. Morgan & Co. recently recommended that GM increase its reserves for such items as pensions and plant closings. A source says the auto maker's new management team, which wants to put the bad news to bed, backs such a move. But GM's old guard is resisting a big charge as an admission of past errors. Some of GM's future is certain. Former Chairman Roger Smith on Jan. 27 announced his retirement from the board. And at some point, GM must take a $16 billion to $24 billion charge for retiree health benefits.

TURNING UP THE HEAT ON PRUDENTIAL

▸ The regulators are making it even hotter for Prudential Securities. In a late-January letter to a federal judge in New Orleans, the Idaho securities commissioner disclosed that he is heading a multistate task force probing alleged improprieties in Prudential's sale of limited partnerships. The letter also cites SEC and NASD probes and says the FBI "is conducting a criminal investigation of Prudential's actions in promoting partnerships."

The Idaho regulator is asking the judge to reject as inadequate a proposed $37 million class-action settlement involving $1.46 billion in underperforming Energy Income limited partnerships. "The proposed settlement is a fair one," says a spokesman for Pru Securities.

FIRST CITY BANCORP: THE SAD STORY ENDS

▸ The sorry saga of Houston-based First City Bancorp, rescued twice by federal regulators, ended on Jan. 26 with the sale of its 20 failed banks by the FDIC for $434 million. Thanks to loss-sharing agreements with some buyers, the Bank Insurance Fund may not suffer any losses. When the FDIC took over First City in October, it estimated that the latest rescue could cost the fund $500 million. The buyout's big winner is Texas Commerce Bancshares, a unit of Chemical Bank. TCB picked up five banks representing 73% of the former First City's $9 billion-plus in assets.

HISTORY COLLIDES WITH THE BOTTOM LINE

Can it really be gone? It brought newfangled inventions such as sewing machines and clothes washers to country folk. Generations of Americans remember it as the "wish book," because its well-thumbed pages helped countless children make up their Christmas lists. With its "free trial offers" and its "money-back guarantees," the book helped define the material dreams of a growing young nation.

Despite the history, Sears announced on Jan. 25 that after 107 years, the Sears catalog will cease to exist. The arrival of Wal-Mart stores in rural areas and the catalog's own heavy costs had led to recurring losses at the $3.3 billion operation. With the closure, 3,400 full-time and 16,500 part-time jobs will be lost. Yet the catalog's shutdown will bring more than just another flurry of pink slips: It represents the passing of an era in American retailing.

TIME WARNER UPS THE CABLE ANTE

▸ Time Warner has challenged the cable TV industry with the technological equivalent of "can you top this?" On Jan. 26, the media giant announced it would build a state-of-the-art fiber-optic cable system in Orlando. The system will offer videos on demand, home shopping, and telecommunications service.

Time Warner Chairman Gerald Levin says the system goes far beyond rival Time Communications' plan to offer 500 cable channels using compression technology. "We're talking about probably 50,000 channels," he says. The system will start service to 4,000 customers early next year.

TOP CARDMAKER TOPPS TAKES A TUMBLE

▸ The contraction in the sports trading-card business claimed its biggest victim yet on Jan. 25, when market leader Topps disclosed it expected to suffer an unspecified loss in the quarter ending Feb. 3. The following day, Topps stock fell 3¾, or 31%, to $2.

The trading-card biz has suffered from too many producers grabbing at a shrinking market. "Retailers don't know what to carry, collectors don't know what to collect," says John Belo, head of the National Football League's licensing arm.

EDITED BY STEPHEN H. WILDSTROM

LINTON'S RISKY FAITH N A HEALTH-CARE FIX

When it comes to manipulating the symbols of the Presidency and keeping a tight focus on the economy, Bill Clinton is taking a few pages from Ron- Reagan's script. Now, Clinton's advisers are discovering an- ıer similarity: An unwillingness to accept bad news about a ıtral campaign promise.

Reagan clung to the belief that tax cuts would produce a 'enue gusher and that the government could save tens of ions by rooting out "waste, fraud, and abuse." Clinton insists ıt he can both extend medical coverage all Americans and put the brakes on runaway cost of health care.

So far, Clinton's health advisers are hav- as much luck with their boss as the ıper's aides had shaking his faith in sup- -side miracles. On Jan. 11, Clinton's nsition team gave him the bad news: tending benefits to 33 million uninsured ıericans would require a higher deficit, v taxes, price controls on medical servic- -or all three. "It was sticker shock," 's one adviser. "The President was very strated."

HILLARY: TAKING CHARGE

NISHED DOUBTER. The problems arose m Clinton's embrace of "managed com- ıition," which relies on large purchasing ıperatives to bargain down the cost of dical care. Many Clintonites think this rket-based approach can't be counted on to control costs. ınsition health director Judith Feder of Georgetown Univer- 7 was one of the doubters. She told Clinton his plan would ıduce no budget savings.

Longtime Clinton friend Ira Magaziner offered a much rosi- view. Based on his 1991 study of health care in Rhode Is- d, he argued that half of the health-care dollar goes to ad- ıistrative overhead. Managed competition would squeeze ıse costs and quickly yield big savings.

'linton responded with some surgery on his health team. Magaziner was installed as the top White House staffer on health reform. Feder was exiled to the Health & Human Services Dept. To underscore the importance he gives to the health issue, the President handed Hillary Rodham Clinton the tough job of harmonizing policy conflicts and building public support for reform. "She's his closest, most trusted adviser," says a Clinton transition aide. "She'll be able to cut through the personal turf baloney and present him with a clear plan."

But by taking the issue into the First Bedroom, Clinton guarantees that if health reform fizzles, the blame will land squarely on the White House, not on some hapless Cabinet secretary. "He's betting the farm—not just his social policy, but a good chunk of his economic policy, too," says Jack A. Meyer, president of New Directions for Policy, a research group.

Clinton aides say that he had no choice. His vow to overhaul the health system was so central to his victory that failure to deliver would be devastating. "There is no issue on which the stakes are higher," says Democratic pollster Celinda Lake. "Voters are willing to ignore the small issues if he can deliver on the big ones."

But even with Hillary in charge, Clinton aides will have a tough time reconciling the contradictions in his plan. As a result, they're thinking about a phased-in plan that could take years to unfold. For starters, the initial expansion of coverage may be limited to children and pregnant women. And he may have to resort to mandatory price controls to keep spending within his planned ceiling on national health expenditures.

The danger is that four years from now, voters may not see much of the sweeping overhaul that he promised during the campaign. That's why President Clinton is acting so ornery with aides who tell him his prescription won't work.

By Susan B. Garland and Mike McNamee

FITAL WRAPUP

ANKING

Bill Clinton, who has resisted calls for bipartisanship in his Adminis- ation, may end up giving a top bank- ·gulation job to a Republican. The ·ason is his old friend and Little Rock de, Arkansas banker William H. Bow- ı. Clinton promised Bowen his choice banking posts, but Bowen only ants a director's seat on the Federal eposit Insurance Corp. At most, ree of five FDIC directors can come om one party, and Bowen and Comp- oller of the Currency-designate Gene udwig are both Democrats. That eans that the FDIC chair, deputy ıair, or the director of the Office of Thrift Supervision must be a Republican or independent.

LOBBYISTS

Labor skates will dominate the Clinton Administration's lobbying efforts. Jerry Klepner of the American Federation of State, County & Municipal Employees will be chief lobbyist for the Health & Human Services Dept. His counterpart at the Labor Dept. will be Service Employees International Union political director Geri Palast. Chief White House lobbyist Howard Paster represented the UAW for many years. Joan Baggett, a former bricklayers' union official, is deputy White House political director.

AIR WARS

The Administration may have to move faster than it would like to formulate both trade and aviation policy. By Feb. 3, the Transportation Dept. must rule on a dispute between Japan and United Airlines Inc. At issue: how much control Tokyo can impose on flights to third countries with an intermediate stop in Japan. Transportation is expected to accept United's argument that Tokyo's insistence on control violates an existing treaty. The open question is just how tough the Administration will be in imposing retaliatory sanctions on Japanese carriers flying through the U. S.

ALEX OLIVEIRA-MATRIX

EDS INFORMATION MANAGEMENT CENTER: BT'S LINKS COULD GIVE IT A GLOBAL REACH

THIS SPLICE COULD BE GOLDEN

What EDS and British Telecom could do for each other

A dating service couldn't make a better match. Electronic Data Systems Corp., the giant computer services company, wants to expand overseas, but its parent corporation is strapped for cash. It also lacks the communications links it needs to be truly global. British Telecommunications PLC is assembling a worldwide network and has contracts with multinationals in the world's fastest-growing markets but needs a computer services partner to be state-of-the-art. And it's rolling in cash.

Now, after a courtship that began just a few months ago, EDS and BT are talking about tying the knot. And what a union it would be. There are potential benefits all around: General Motors Corp., owner of EDS, gets some much-needed cash. EDS gets a foothold overseas, where it has had a tough time breaking in. And BT gets to broaden its services outside the telephone business. "You're talking about creating a pretty powerful business in Europe," says Peter A. Cunningham, president of Input, a Mountain View (Calif.) market research firm.

Sources close to both companies say talks are under way, although the sha of the deal remains very loose. Ce source says the first idea was a jo venture company. It would house BS Customer Systems unit, now Britai third-largest supplier of computer s vices, plus Atlanta-based subsidiary Sy cordia Corp., a communications netw management company BT launched 1991 that has been slow to take off. La last year, when GM's crisis peaked, te parties began talking about BT taking equity stake, with GM selling as much a $5 billion share, or about 25%, of E But those discussions are "very preli nary," adds the source.

NEW WAVE? A union of the two wou square with the industry trend and cou even set off a wave of mergers. Te phone companies and computer servic companies more and more are bei driven into each other's arms by t needs of corporate clients th rely increasingly on inter use of the telephone and t computer together. In E rope, France Telecom h been eyeing an equity sta in Cap Gemini Sogeti, E rope's largest computer s vices company. Americ Telephone & Telegraph Co. on the move in Europe, usi a small computer servic unit it bought from auton bile maker Rover Group

TWO GIANTS IN THEIR OWN RIGHT

BT	EDS
FISCAL YEAR ENDING MAR. 31, 1993	YEAR ENDED DEC. 31, 1992
SALES $20 billion*	SALES $8.2 billion*
PROFITS $4 billion*	PROFITS $647 million*
GOAL To become the No. 1 provider of voice, data, and video communications to multinational corporations	GOAL To increase annual sales to $25 billion by the year 2000 by expanding overseas

*ESTIMATES

DATA BUSINESS WEEK

39 as a vehicle for expanding sys-
ns integrators in Britain, France, and
rmany.

But the deal BT and EDS are hatching
ıld be the most ambitious of all. BT
airman Iain Vallance wants to make
company the world's largest carrier
voice, data, and video signals for
ge corporations. It plans to spend $1
lion to build a futuristic network that
l circle the globe, bypassing existing
ephone companies with giant switch-
r centers in London, New York,
ankfurt, Sydney, and other cities.

Meanwhile, EDS's talent is in writing
plications software and integrating
nputers for corporate clients. The
llas-based company, perhaps best
own as the brainchild of onetime Pres-
ntial candidate Ross Perot, can also
nage a client's entire data processing
eration. But in Europe, where EDS
nts to increase its $1.1 billion busi-
ss, the Texas company is still some-
es seen as an "ugly American," says
ut's Cunningham, and it needs a
ong European partner to put the im-
to rest.

ST TROUBLE.' Even if their ambitions
erlap, EDS and BT are very different
l could have trouble melding their
porate cultures. BT was privatized in
4, but it still holds 93% of the British
rket and isn't accustomed to compet-
. Some of the company's forays into
rth America have fizzled out, most
ently when it sold a 20% stake in
Caw Cellular Communications Inc. to
T for $1.8 billion.

DS, on the other hand, is a highly
repreneurial company. "It will be an
rmous challenge for BT to absorb a
npany with a true commercial back-
und," says Keith Mallinson, research
ector at Yankee Group Europe. Oth-
aren't so sure BT should link up with
at all. Says a London consultant who
en advises BT: "It's a big mistake. EDS
ows nothing about telephones. It's
t trouble."

There are other problem areas as well.
neral Motors owns 40% of the GM
ss E shares, which are tied to the
formance of EDS but are not equity
kes per se. If BT bought Class E
res, technically it wouldn't be getting
stake in EDS, but in GM. For BT to
uence EDS management, then, ana-
s suggest BT would have to buy EDS
right. GM, however, has seen EDS
w rapidly since 1984, when revenues
e less than $1 billion, to more than $8
ion last year, when profits jumped an
mated 18%. GM considers EDS one of
crown jewels and may be reluctant to
t with all of it. But objections could
n fade, with so much to be gained by
sides.

*By Paula Dwyer in London and Wendy
ner in Dallas*

EUROPE

THE KNIVES COME OUT IN EUROPE'S SOFTWARE MARKET

Microsoft slashes its prices—and war looms everywhere

For Europeans tired of paying huge markups on U. S.-made software for personal computers, the scene at Peugeot last December was welcome relief. Outbidding archrivals Microsoft and Lotus Development, Borland International won a contract to supply Peugeot with 14,000 copies of its latest electronic spreadsheet. The winning bid was under $50 a copy—more than 95% off Borland's list price. "The competition is getting fairly savage," says a gleeful Peugeot executive.

There could be more savagery to come. In late January, Microsoft nudged such behind-the-scenes skirmishes into the open and recognized a recent surge in discounting in Europe. For the first time, Microsoft cut its European list prices for programs that run with its Windows software. The move may set off a price war in Europe if rivals counter with cuts of their own. That could spell trouble for U. S. companies used to fat profit margins in the $9.5 billion European software market.

GOLD MINE. With up to 40% of their sales coming from Europe, American software companies have long relied on big markups in Europe to boost earnings. Claiming higher costs for language translations and other factors, they have charged prices anywhere from 20% to more than 100% over U. S. prices (table).

But as competition heats up and prices fall, profit margins could slide. Prices for such Microsoft programs as word processing and spreadsheets will drop 10% in France and 17% in Germany. What's more, Europe's corporate buyers are in for a major break. Under a new campaign, a big Microsoft customer can pool its orders from across Europe and the world to earn volume discounts of up to 60%. Lotus plans to unveil a similar European scheme with even higher discounts in February. In the Microsoft fiscal year ending in June, the price cuts could reduce sales by 2% and profits by 4%, estimates analyst Rick Sherlund of Goldman, Sachs & Co.

Microsoft is anxious to avoid being seen as pulling the trigger in a price war. It's already under investigation by the U. S. Federal Trade Commission for alleged unfair-trading practices, al-

EUROPEANS PAY DEARLY FOR SOFTWARE

Product	U.S.	Premium paid as percent over U.S. price* Britain	Germany	France
BORLAND PARADOX	$795	19%	29%	152%
LOTUS 1-2-3	495	52	66	103
MICROSOFT WINDOWS	149	26	84	101
WORDPERFECT	495	53	93	91

*November, 1992, survey of suggested retail prices

DATA: PAUL GEOFFREY ASSOCIATES

MICROSOFT ON GERMAN SHELVES: *AUF WIEDERSEHEN* TO FAT PROFIT MARGINS?

though no one sees the European price moves as predatory. Microsoft Europe President Bernard Vergnes insists the "price adjustments" are designed to harmonize the huge variances in European prices and offset currency moves. Moreover, he adds, any revenue shortfall will likely be offset by higher volume. "If this were a price war, you would see bigger cuts," Vergnes says.

Whatever you call it, pressure on list prices has been building for months. Ironically, Microsoft's success in marketing Windows has set off the fierce competition. Four million European PC users have adopted Windows since 1990. Microsoft had been cleaning up in Europe, where Windows programs now account for 58% of the market, compared with only 32% in the U. S. But now, competitors are scrambling to overcome Microsoft's lead in selling Windows users on flashy new applications. The suppliers who win those customers could end up with juicy follow-on revenues from upgrade versions for years to come.

BAD PRECEDENT? Microsoft's rivals are coming on strong. Discounting is rampant: The average unit price of programs for Windows is down more than 35% in the past year. Since last summer, Lotus and Microsoft have offered packages of four different programs for less than the price of two. In November, Microsoft invaded Borland's franchise in data-base programs with a limited introductory price of about $185 in France—12% of the going rate. Borland countered with a salvo into Microso's spreadsheet stronghold. Nobody kn's where it will end. "Once customers se a low price, it's hard to get them to y more," admits Francois Micol, Borlan's European vice-president.

Meanwhile, customers are clamo for simpler pricing. Fed up with piecemeal purchases country by country, glo-Dutch giant Unilever PLC recen pressed Lotus, WordPerfect, and oth for a single discount on purchases a where in the world. Unilever's savin at least 30%. Says Mike Johnson, U lever's head of information technolo "We're changing the rules of the gam When it comes to software in Euro that game has a new name: hardball

By Jonathan B. Levine in P

GERMANY

MERCEDES IS DOWNSIZING —AND THAT INCLUDES THE STICKER

The carmaker's entry into lower-priced niches amounts to 'a revolution'

Just three weeks after taking over as chief of Mercedes-Benz, Helmut Werner is unleashing a makeover of the flagship of Daimler Benz, Germany's largest industrial company. In a dramatic break with decades of tradition, Werner proclaimed that the producer of luxury autos will make lower-priced vehicles.

Mercedes 190E: The 'Baby Benz' arrives this summer, listing below $25,000 in Germany and loaded with extras

They will include a subcompact "city car" that goes head-to-head with such autos as the soon-to-be-launched Renault Twingo, which will cost a mere $10,000 or so. Werner also wants to go into minivans and four-wheel-drive recreational vehicles. "If they can do it, it will cause a revolution at Mercedes," says Daniel T. Jones, an auto specialist at the Cardiff Business School in Wales.

LOSING GROUND. Werner is responding to declining Mercedes sales and profits and a growing sense in the industry that Mercedes vehicles are overpriced and too narrowly targeted. In recent years, Mercedes has lost ground to such high-end Japanese introductions as Lexus and Infiniti. Also, it was passed in sales for the first time in 1992 by archrival BMW.

To pull off his revolution, Werner will have to do a sweeping overhaul of Mercedes' product development and manufacturing. He may be just the manager for the task. A 56-year-old finance specialist, Werner is credited with turning around Daimler's Freightliner truckmaking subsidiary and making it No. 1 in the U. S. market. Mercedes has already slashed 13,000 jobs from its 180,000 German payroll and eliminated several management levels, but Werner says that is not enough. "No one in the world is prepared to pay for German complacency on the cost front," he warns.

That's a thinly veiled signal to Germany's militant IG Metall labor union that something has to be done about high labor costs. In another break from tradition, Mercedes is making cars outside of Germany. It is already assembling c in South Korea and Mexico, and it earmarked $570 million for a Spar minivan plant. Now, says Werner, a f car production facility in a foreign m ket is being considered.

But that's just the start. In a m that will rock Mercedes' engineer-do nated culture to foundations, Wer wants to do away w the company's con cost-plus approach pricing its cars. In future, sticker pri will be set by a m ket-driven target pr Engineers and pl bosses will have meet that price. T first test will be new 190 model "B Benz," set to arrive t summer. Werner decided to price it at der $25,000 in Germa That's about the sa as its predecess though it's loaded w $5,000 worth of extr

Werner says costs in Germany can cut about 30%. Industry mavens r cost-paring as the makeover's litm test. "The really key issue is building a price," says Michael Smith, mana of DRI Europe's London-based auto c sultancy. "It's quite clear Mercedes have to do that to compete."

However, Werner's new-product st egy has left some auto analysts ga ing—and worried. "This could be sui al," warns one London stockbrok "Who wants a Mercedes Corolla inst of a dream car?" But fierce competit and last year's 30% drop in Merce pretax profit to an estimated $1.4 bil don't leave Werner much choice.

By John Templeman in B

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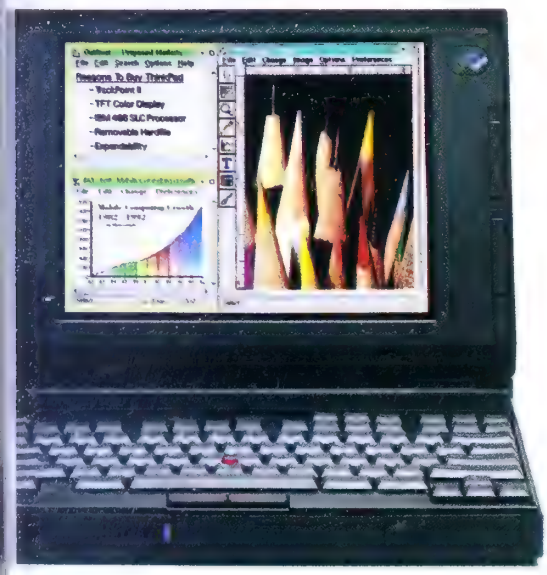

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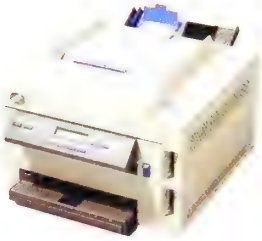

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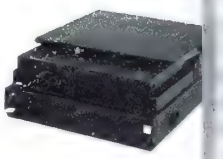

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APAN ISN'T ABOUT TO BE ILL CLINTON'S SILENT PARTNER

A bit of colonial American history keeps cropping up these days when Japanese leaders talk about relations with the U. S. "Remember the Boston Tea Party," s one top Japanese trade official. "No taxation without resentation."

Such comments mean that the Japanese are weary of tak- verbal beatings from Washington on trade. They also it to get out from under America's shadow in foreign af- s. Unfortunately, their new assertiveness seems likely to headlong into a Clinton Administration bent on getting gher with Japan. The first act of Clinton's new National nomic Council may be to cancel sale of a division of Applied Mag- ics Corp. of Goleta, Calif., to an's Nakamichi Peripherals Inc. on unds that sensitive missile technol- would be transferred.

SH POINTS. The administration is negotiating with John A. Rollwag- CEO at supercomputer maker Cray earch Inc., to become deputy Com- ce Secretary. Known for his tough in efforts to get Cray's machines Japan, Rollwagen's appointment ld ease fears that Commerce Sec- ry Ron Brown will be too soft on former Japanese clients. "The Administration is letting the anese know there has been a change in policy," says Peter ici, a trade specialist at the University of Maine.

here are more flash points coming up. Japan's trade sur- with the U. S.—$43.7 billion in 1992—will likely get even er as the U. S. economy picks up steam. And the U. S. take action when the final data show that foreign chip- ers' sales didn't reach 20% of the Japanese market in 2, as agreed.

ut American muscle-flexing is likely to be met with a her response than in the past from Japanese Prime Min- Kiichi Miyazawa. Sozaburo Okamatsu, director-general of international trade policy at the Ministry of International Trade & Industry (MITI), says Japan "should take retaliatory action" if the U. S. applies unilateral trade sanctions through a revived Super 301 provision. Others warn that Japan won't get trapped into any more market-share promises. "Japan says 'we'll try our best,' but the Americans call it a promise," grumbles Makoto Kuroda, a former MITI official involved in the semiconductor accord. "It's stupid to think we can promise something we can't control."

Some Japanese do think the switch in U. S. Administrations could be an opportunity to improve relations by broadening them beyond chronically troubled trade issues. But Clinton Administration officials are skeptical. While conceding that it would be healthy to move away from the big brother-little brother syndrome, one Clinton foreign policy adviser warned that "progress on trade is very important to our being able to work together all the more confidently on the larger issues."

PRIME MINISTER MIYAZAWA: RETALIATION?

'RUGGED YEAR.' The U. S. is also wary of Japan's efforts to assert itself more in foreign affairs. Washington doesn't mind Japan's recycling some of its trade surplus in the form of foreign aid. But it may be another story when Tokyo takes practice runs at leadership in its own backyard. Japanese officials gripe that Washington insists they take a global leadership role—as long as it agrees with Beltway priorities. "Don't prod us too much to take initiatives," warns Kuroda. "If we do, you may not like what you hear."

So 1993 is likely to be "a rugged year," in the view of Japan specialist Robert M. Orr. The Japanese, albeit gradually, are becoming more outspoken. And the U. S. may be in no mood to listen.

By Karen Lowry Miller in Tokyo, with Amy Borrus and Douglas Harbrecht in Washington

OBAL WRAPUP

PAN

With bankruptcies soaring and Bank of Japan Governor Yasushi eno coming under fire from Liberal mocratic Party aides, the central nk may be ready to slash its dis- nt rate as much as three-quarters a percentage point, to 2.5%. Such a ve would be the sixth cut since 1. Other interest rates are already ling. The Finance Ministry has ced long-term bond rates down more n one-tenth of a point since Jan- y after signaling it would buy $800 lion a month in government debt. d several banks are cutting the g-term prime rate to 5.2%. That will push mortgage rates down as much as a half-point.

ITALY

The appointment of a Nippon Steel executive, Hayao Nakamura, to head state-owned ILVA, Europe's second-largest steel group, comes as a jolt to the country's huge public sector. The decision by ILVA's parent, industrial holding company IRI, is a signal that the government is serious about privatization efforts. Nakamura's job will be to try to salvage ILVA, which is on the verge of bankruptcy, with $5.7 billion in debt and $1.2 billion in losses reported in the first 11 months of last year.

TRADE

New but little-noticed guidelines for American embassies approved by the Bush Administration could boost U. S. exporters. Under long-standing practice, U. S. diplomats and Commerce Dept. officials could not go to bat for an American company bidding on an overseas contract if rival bids from foreign suppliers included even minor U. S. participation. But under the new rules, Commerce can support whichever proposal is deemed to offer the biggest gains for the U. S. economy. Officials say the change will be particularly helpful in the Middle East and Latin America.

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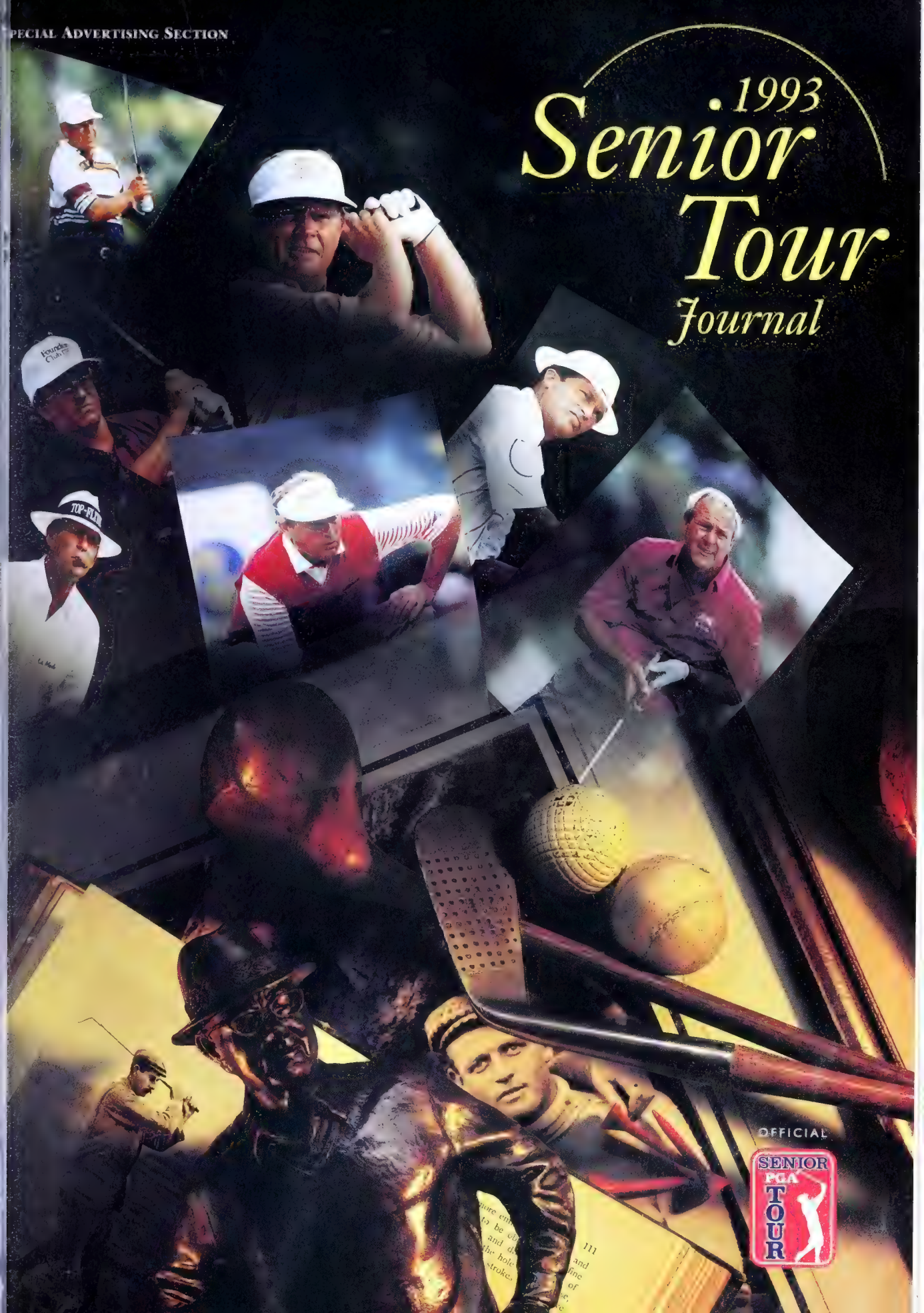

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BUSINESS & Pleasure

y Stan Wood

Dave Stockton's desire to excel on the PGA TOUR was tougher to kill than Rasputin.

After earning his degree in Business Ianagement at the University of Southern 'alifornia in 1964, Stockton allotted three ears of his young life to succeeding on the GA TOUR. He felt that if he couldn't ut it in that time frame, he would quit the 'OUR and enter USC's law school.

Beset by recurring back spasms, a ondition triggered by a surfing accident hen he was 15 years old, Stockton suffered rough his first two seasons, winning only 5,410 in 1965 and just $10,115 in 1966.

After the 1966 season, Stockton underwent nother physical examination in his hometown f San Bernardino. Doctors discovered tockton's left leg was a half inch shorter than is right one, a condition apparently brought out during the healing process after his rfing mishap. Another surfer's big board rashed into his back, breaking six vertebrae.

"Basically, my right side continued to grow nd develop and the left side didn't," he xplained. "It also affected my left hip so I n't turn it."

The surgeon prescribed a half-inch lift for e left shoe, a lift worn even today on and off e golf course.

In 1967, relieved of his nagging back pain, tockton began to play like he felt he could.

After placing fourth in the Greater reensboro Open, Stockton shocked fellow mpetitors by starting with rounds of 65 and 66, a record nine-under-par, in the prestigious Colonial National Invitational in Ft. Worth. He concluded with rounds of 74 and 73 for a two-under 278 total, the only man in the tournament to break par. That first victory was worth $23,000.

His second win came later that year when he and partner Laurie Hammer combined to win the Haig Scotch Foursomes at La Costa Resort & Spa in Carlsbad, CA.

Stockton finished 19th on the money list with $54,333. His total income for the year, counting "unofficial" money, was $94,333, and the country was spared another lawyer.

Strong play continued in 1968 with two victories in three weeks. He won the Cleveland Open, then beat superstar Sam Snead by four shots in the Greater Milwaukee Open. Stockton moved up to 14th on the money list with $100,432.

His zenith year occurred in 1974 when he won three tournaments, finished second to Gary Player in the Masters and was sixth on the money list with $155,105.

Stockton's two majors, the 1970 and 1976 PGA championships, were won by a grand total of two shots.

In 1970, at the demanding Southern Hills course in steaming Tulsa, OK, Stockton edged playing companion Arnold Palmer by a shot. In the 1976 championship at the tough Congressional course in Bethesda, MD, he never led until the final nine holes. He made a clutch par-saving 13-foot putt on the last hole to prevail by a stroke. It was Stockton's 11th

is zenith year occurred in 1974 when he won three tournaments, finished second to Gary Player in the Masters and was sixth on the money list with $155,105.

career victory and was to be his last on the PGA TOUR.

"The 1970 PGA win was very gratifying because it was my first major, but the second one was even more so because it proved the first one wasn't a fluke," he said.

Despite his considerable success, Stockton, inexplicably, harbors the irrational thought that he is somewhat less than a complete player. "I want people to remember me as more than just a short-game artist," he has said.

1991 Ryder Cup Captain Dave Stockton advising Fred Couples.

"Dave is too hard on himself," says good buddy Al Geiberger. "You've got to hit a lot of good shots to get close enough to the hole to make birdies. He sometimes forgets that he's won 11 tournaments competing against guys like Jack Nicklaus, Arnold Palmer, Tom Watson, Lee Trevino and Gary Player when they were playing their best golf."

Stockton's last charge at victory was in the 1978 U.S. Open at Cherry Hills in Denver. His putt on the last hole to tie Andy North for the lead lipped out. Thereafter, Dave's game began to slip.

espite his considerable success, Stockton, inexplicably, harbors the irrational thought that he is somewhat less than a complete player.

With few exceptions, veteran players inevitably enter the "forty-something zone," where once abundant skills erode, powerful drives slam into mysterious headwinds and drop 10 to 20 yards short of where they landed a decade earlier and once keen eyes no longer can detect subtle breaks in greens.

Their options were to continue to struggle on the PGA TOUR, take a club job or do corporate outings. Stockton chose to play 10 tournaments and go the corporate route.

An outgoing person, the articulate and glib Stockton was so good at these that he got all the business he wanted. When fellow pros anointed him "King of the Outings," they coronated the right person. "King Stockton" was a working monarch. In 1989 he did 96 outings, clinics and exhibitions and amassed $600,000 in the process.

His business manager, Ralph Cross of Players Group, Inc., says, "Dave Stockton is the only pro I know who returns home from an outing and has a second set of bags packed to head out for his next one."

Stockton drastically cut short his hectic outing schedule in 1990 when The PGA of America officials chose him to be captain of the 1991 U.S. Ryder Cup team. "It's the greatest honor I've ever received," he said.

A member of the victorious 1971 and 1977 teams with a personal 3-1-1 record, Stockton left himself vulnerable to criticism and second-guessing when he bypassed proven Ryder Cup stars Jack Nicklaus, Tom Watson, Tom Kite and Curtis Strange in favor of Raymond Floyd as his at-large selection.

Stockton reasoned that Floyd, who had been Fred Couples' partner in a recent event, could exert a stabilizing influence on the talented but then erratic Couples. The strategy worked. Floyd and Couples won two matches and Couples, who was shut out in the 1989 Ryder Cup, emerged as the star with a 3-1-1 record. He led the Americans to a pulsating 14-½ to 13-½ victory over the Europeans, the first for the United States in eight years.

Stockton said his involvement with the Ryder Cup team was "the greatest thrill I've ever had in golf. I devoted a year and a half of my life to the team, and it was the fulfillment of a dream."

Stockton was introduced to golf by his father, Gail, then a professional. Dave wasn't a young phenom by any means and says he didn't take golf seriously until he was 17.

A descendant of Richard Stockton, a signer of the Declaration of Independence from New Jersey, Stockton came from a family of comfortable means. During summers, however, he worked at his father's sporting

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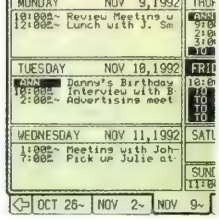

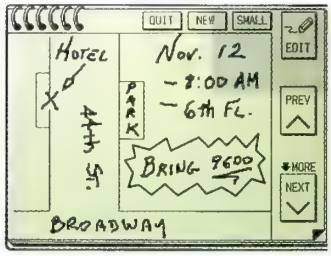

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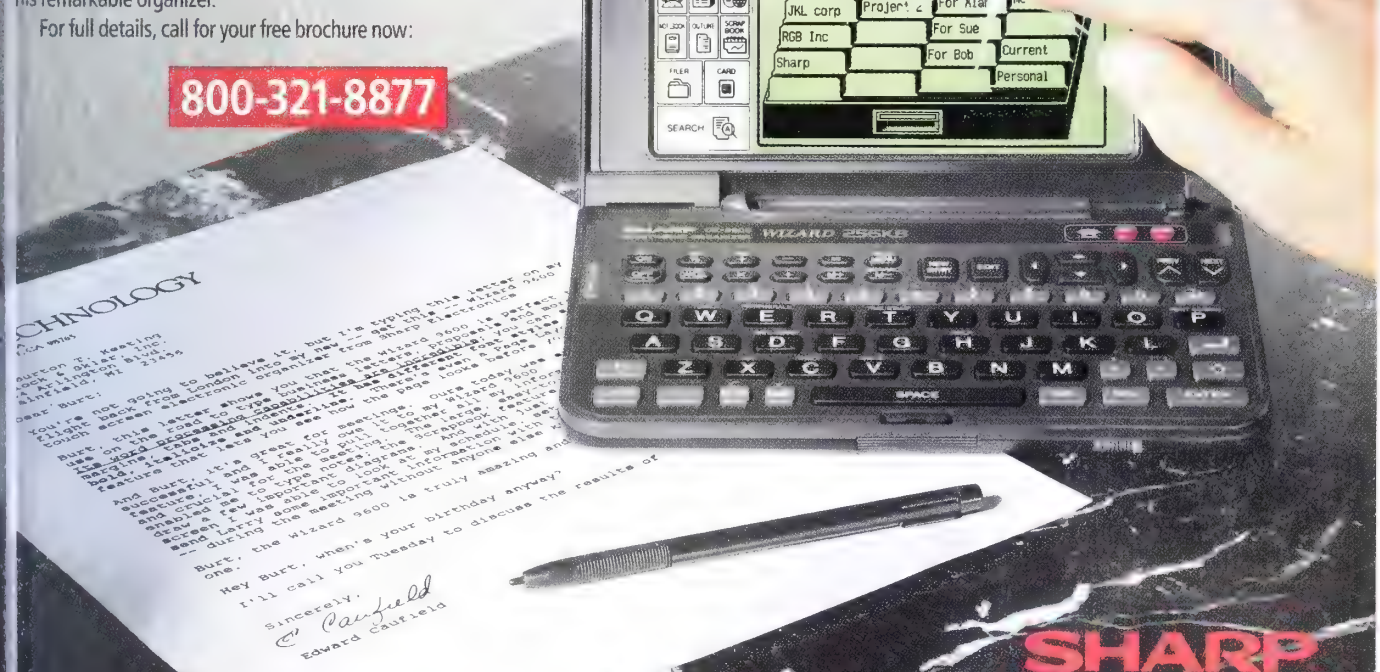

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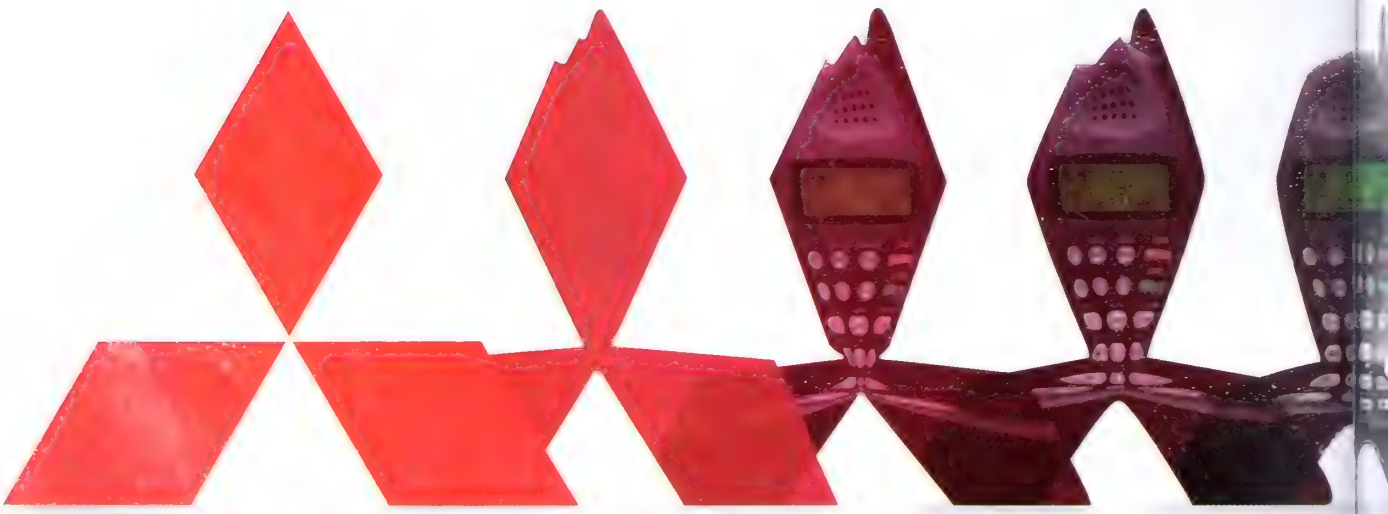
goods store and also toiled at his neighbor's lumber yard in sweltering 100-degree San Bernardino heat. "Dad wanted me to appreciate the value of a buck," said Dave.

At USC he became the No. 1 player on the Trojan team. He twice earned All-American honors and won the Pacific Coast Conference championship in his senior year. Stockton later was inducted into the All American Collegiate Golf Hall of Fame.

Because of his physical impairment, Stockton can't fully turn his left hip. He can't pivot correctly and can't attain speedy maximum clubhead velocity at impact. Despite his husky 5 feet 11-½ inch and 185-pound frame, Stockton is one of the shorter hitters (245-yard average) on the SENIOR PGA TOUR.

Self-deprecatingly, he kids, "I don't hit my drives far but I make up for that by hitting them crooked. I didn't care where the ball went, I was in a hurry to get to the green. That's where all the fun is."

All good players are good putters but to admit it is tantamount to heresy. Stockton broke this code when he said, "To me, putting is the easiest part of



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lf." He proved his contention by becoming e best putter on the Senior TOUR in 1992.

Stockton says he's satisfied with his rookie nior season. His first win against the golden dies was an improbable one in the Senior AYERS Championship, a major.

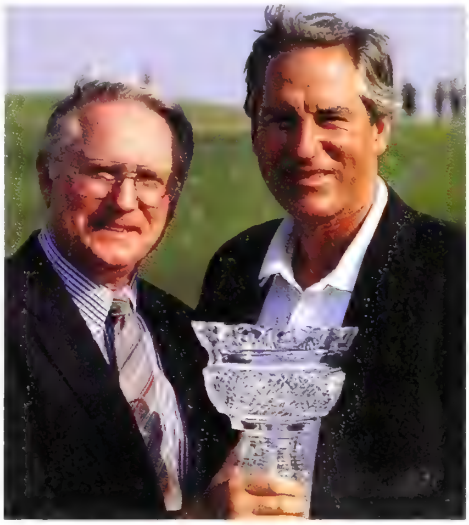
Two strokes behind front-running J.C. ead, with whom he was paired heading into e final hole, Dave birdied while the luckless . double bogeyed to lose by one. It was e first time Stockton led in the entire 72-le tournament.

At year's end Stockton finished seventh on e money chart with $656,458 in 32 tourna-ents, which was more than half of the ,275,453 he accumulated during his entire years on the PGA TOUR.

Stockton was the best putter on the nior TOUR with 1.739 putts per green, ead of runner-up Lee Trevino. Dave was th in scoring with a 70.27 stroke a round erage and third in birdie-making with 363. Armed with these impressive credentials, he thrust himself into the forefront and earned Senior Rookie of the Year honors.

"Money isn't that much of a factor anymore," says Stockton, "I want to be high in the important tournament statistics like scoring average, putting and birdie-making and be a factor in as many tournaments as possible. My underlying goal is to win more tournaments on the Senior TOUR than I did on the PGA TOUR."

Stockton and his wife Cathy, a former college beauty queen, are parents of two good golfing sons, David and Ron, who caddied for his father last year.



Commissioner Deane Beman presents Dave Stockton with his Senior PLAYERS Championship trophy.

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Let's hear it for Larry

By Jay Willi

Scene: Los Angeles International Airport, a rental car counter. The agent speaks: "Hey, I know you. You play golf with a cigar in your mouth, right? Hey, congratulations on winning the Senior Open. What kind of car are you getting? Hey, here's a better one. Won't cost you extra. Good luck."

You see the puff of smoke from 300 hundred yards away. As if by magic, you know who it is. It just has to be Larry Laoretti, smoking that drive, smoking that cigar.

Doesn't it just seem that Larry Laoretti, as if by magic, appeared in a puff a smoke on the Senior TOUR? With a big driver, a big putter and a big cigar, Laoretti has made himself instantly visible in the world of golf. That magic trick was the tough part. Making yourself invisible on the world stage, which Laoretti did until the age of 50, had been easy.

As he loaded a truck in the fall of 1983 to take a journey from one club job to another, Laoretti had no idea just how long, how satisfying, how fruitful, how magical his journey in professional golf would become.

These are the things that Laoretti never dreamed about as he drove from the Pine Hollow Club on Long Island to the Indian Creek Club in Jupiter, FL that fall of '83:

- That he would win the U.S. Senior Open.
- That he would win a million bucks in three seasons on the Senior TOUR.
- That he would be paired on a team with Jack Nicklaus and Chi Chi Rodriguez for a one-day television tournament that would pay him $66,666.
- That he would be part of the team of U.S. Senior players that would beat a Japanese team in the DuPont Cup.
- That he would have a putter model named after him.
- That he would have a new family with a very supportive wife and a young son.
- Then there is this dream that he never had, one so implausible as to exceed the bounds of fiction: Someone actually is paying him to smoke cigars.

thought if I practiced and paid attention to my own game, that I would have a chance to play on the Senior TOUR. But I never thought it could be like this.

Larry Laoretti with his wife Susan, and his son Lonnie

"I've died and gone to heaven a million times over," said Laoretti. "I thought I could be a better player. I thought if I practiced and paid attention to my own game, that I would have a chance to play on the Senior TOUR. But I never thought it could be like this."

Scene: Kitaura Golf Club, Japan. Opening ceremonies for the DuPont Cup are about to begin and Laoretti, to follow the proper etiquette, disposes of his cigar behind the scorer's tent. Smoking a cigar in such a formal setting would not be proper. Shortly after dousing and abandoning the cigar, a Japanese news photographer removes it from a waste paper basket and takes a picture of it lying on the grass.

One day in 1985, a young woman who would be Larry Laoretti's wife went to the desk in the pro shop of the Indian Creek Golf Club. It was a sporty public layout distinguished by only one thing. Its driving range was a lake and the range balls floated. She had played a little golf and wanted some lessons. The lesson would be with Larry Laoretti, head pro.

Of such things are romances made.

In 1988 Susan and Larry were married. By November of the next year their son Lonnie was born. And in 1990 Laoretti embarked on his ultimate journey, his first full year on the Senior TOUR.

"When we first met, the Senior TOUR was an itch in the back of his head," said Susan Laoretti. "As we got more serious his desire to play the Senior TOUR got more serious."

In the fall of 1988 Laoretti decided that the only way to get on the Senior TOUR was by intensive practice, more practice in a year's time than in his lifetime. He quit the head pro's job at Indian Creek and beat balls, with the full support of Susan, who had a job as the pro shop manager at the Quail Ridge Golf Club, a job that paid the bills, or most of them.

Larry celebrates with U.S. Senior Open Trophy.

"When you're a club pro, you don't have any time for yourself," said Laoretti. "When you have to worry about somebody who's lost an umbrella or their cart is stalled on the 14th hole, or how you're going to pay for the shipment of shirts that just came in, it's pretty darn difficult to concentrate on your own game."

Laoretti had been a professional ever since 1960 when he left the Navy and took a job in the bag room of the Glen Head Country Club, working for Mike Fetchick, now a fellow member of the Senior TOUR for whom he had caddied for while growing up in Mahopac, NY.

From Glen Head he went to Pine Hollow as an assistant, and from there to another Long Island course, Smithtown Landing, where he got his first head pro job. From Smithtown he went to Las Vegas, from Las Vegas to Brae Burn and then Ridgeway, both north of New York City, to Houston then back to Pine Hollow as the head pro. Laoretti always was a traveling man.

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Chevrolet. The Heartbeat Of America.

In the summer of 1989, as his 50th birthday approached, Laoretti was practicing and competing in everything he could. He was working out regularly, running and going through a stretching routine that Susan, a bit of a fitness bug, devised for him.

Then came what might have been the ultimate leap of faith by Susan. Several months pregnant, she quit her job to caddy full time for Larry.

"We didn't have anything so we didn't have anything to lose," said Susan. "I know it might sound foolish but we never gave ourselves the option of not making it. It was like I'm leaving my job in July, you'll qualify for the TOUR in November, and we'll be on the TOUR next year. There was no question that he'd make it."

Laoretti's confidence was buoyed that summer when he won the South Florida PGA Championship in both the Regular and Senior divisions. It was the best he had ever played and the biggest thing he had ever won. Back in the Met area of New York he had won only one small tournament.

Met area players such as Jim Albus and Mike Joyce, who have both won on the Senior TOUR, were far more successful in club pro competitions than Laoretti. Larry had a powerful, though flawed swing. With a flailing right elbow he often found it difficult to consistently control his power. Once a round, maybe twice, he would hit a drive so far to the right that it would fly over the John Birch Society. A 70 would become a 74 and Laoretti would become invisible. There wasn't any magic to that.

"I don't think Larry ever worked on his game all that much," said Albus. "He was a natural player and tried to get by on his natural ability. When he learned to control his game and his short game came around, then he learned how to score. Actually, I think it's the cigars. If you took them away from him, I doubt he could play."

Laoretti's determination wavered only a little as he raced toward the November qualifying school. He had the opportunity to interview for two head professional jobs, one in Florida, the other back on Long Island. They would have provided stability, certainty, and a paycheck. "I told him he would be kicking himself for the rest of his life if he didn't follow through on the Senior TOUR," said Susan.

Sure enough, he qualified. He had chased the Senior TOUR around in the late summer and fall, trying to qualify on Mondays, and he did get into two tournaments. The expense of that chase, and of the qualifying school, left him nearly broke. He had spent the $6,000 members at Pine Hollow had raised for him.

With $110 to his name, not enough for any caddy except his wife, Laoretti teed it up in the 1990 Royal Caribbean Classic. By the end of the year he had won more than $165,000. By the end of 1992 he had won nearly a million. Now that's magic.

Scene: Saucon Valley Golf Club in Bethlehem, PA, site of the U.S. Senior Open. Laoretti autographs a cigar and gives it to a volunteer, Tamara Pedersen. "To Tamara, Please Don't Smoke the Cigar. Love and Kisses, Larry Laoretti."

Yes, the cigar. It makes him distinctive, though not unique. Charlie Sifford is the only other player of consequence to play with a cigar in his mouth.

It was on Guam, as a naval meteorologist, that Laoretti was first introduced to cigars by the lieutenant commander of his unit. He had never smoked a cigarette and now he was smoking stogies.

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Later in his life, Laoretti would sometimes have to check his wallet before selecting the quantity and quality of his cigars. Now the Consolidated Tobacco Co. sends him cigars every month. They are called Toro Lights by Te-Amo and on the wrapper it says "Especially Selected for U.S. Senior Open Champion Mr. Larry Laoretti." They send him the cigars, they pay him to smoke them. Heaven.

The victory at Saucon Valley made Laoretti's personality package complete. There he was being interviewed by ABC TV outside the nifty 38-foot motor home that goes almost everywhere the Senior TOUR goes. It's home to Susan and son Lonnie. Laoretti hates airplanes and isn't crazy about hotels.

always lived a fun life. Now I just live it a little more elaborately.

"It's just so much more convenient for storing all the things that Lonnie needs," said Laoretti. "Staying on the 10th floor of some hotel, keeping him penned up in the room, isn't fair to him. At the motor home parks where we stay there are other little kids to play with. I've got two televisions, a VCR, a CD player, washer and dryer. It's a home. That's important when you're really not home for more than a few weeks a year." Jeff Seigel, Laoretti's agent, is negotiating Laoretti an endorsement deal for his motor home, just as he's negotiated endorsements for all the components of Laoretti's professional life.

Larry Laoretti's 38-foot motor home goes almost everywhere the Senior TOUR goes.

He now does many corporate and charity outings and has a deal with the Desert Inn in Las Vegas to play golf with high rollers for a substantial amount of money. An original oil painting of him has been commissioned and lithographs of it will be for sale. There's the possibility of a book. It's mind boggling, and it's so much fun.

Scene: The Indianapolis Zoo. A bus driver who has brought children to the zoo stops Laoretti as he walks the grounds with Susan and Lonnie. "Excuse me but aren't you the guy who won the Open? Good luck and keep smoking them."

Wherever he has gone, Laoretti has left a trail of friends. He lives by the old bromide "a stranger is a friend I haven't met."

Now, with success on a national scale, the friends add up geometrically. This causes Laoretti to address some mathematical necessities of his house in Stuart, FL. He's adding about 2,000 feet to the 3,000-foot home. "Even I'm surprised by how many family and friends I have," he says.

Counted among those friends are Lee Trevino and Chi Chi Rodriguez. Both players have answered Laoretti's call to play in the Larry Laoretti Kids Classic, a pro-am this April that will benefit child abuse prevention organizations.

With abiding respect for the greats of the game like Nicklaus, Trevino and Arnold Palmer, Laoretti's hero is Champagne Tony Lema. Lema, killed in a plane crash in the '60s, got his nickname by providing the press, and plenty of others, with champagne after his victories. He sure liked to celebrate.

The Northville Long Island Classic is a Senior TOUR stop that gives Laoretti time to renew his old friendships. He typically hosts a party for the Long Island golf course superintendents he's close to. On TOUR, he's also hosted parties for all the caddies.

"I knew when I met him he was an exceptional person," said Susan. "I knew it, his friends knew it. He's friendly and sincere, he's charismatic. Everywhere we go he's recognized. He's made a hero out of himself to the common man. The best thing about all his success is that everybody knows what an exceptional person he is."

Look for the puff of smoke. It's the signal Larry Laoretti is around. As if by magic.

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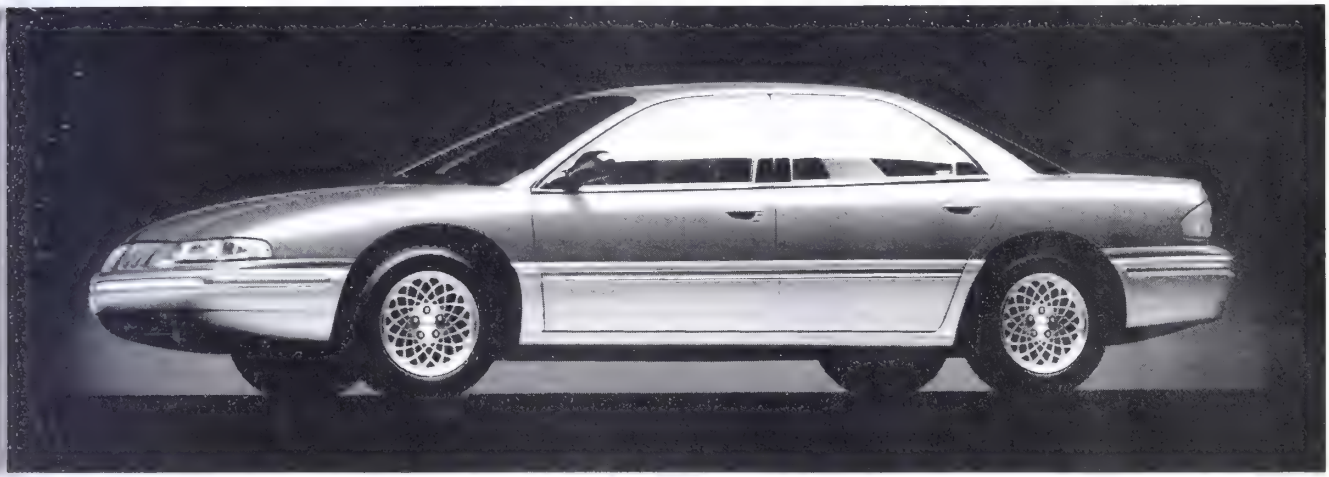

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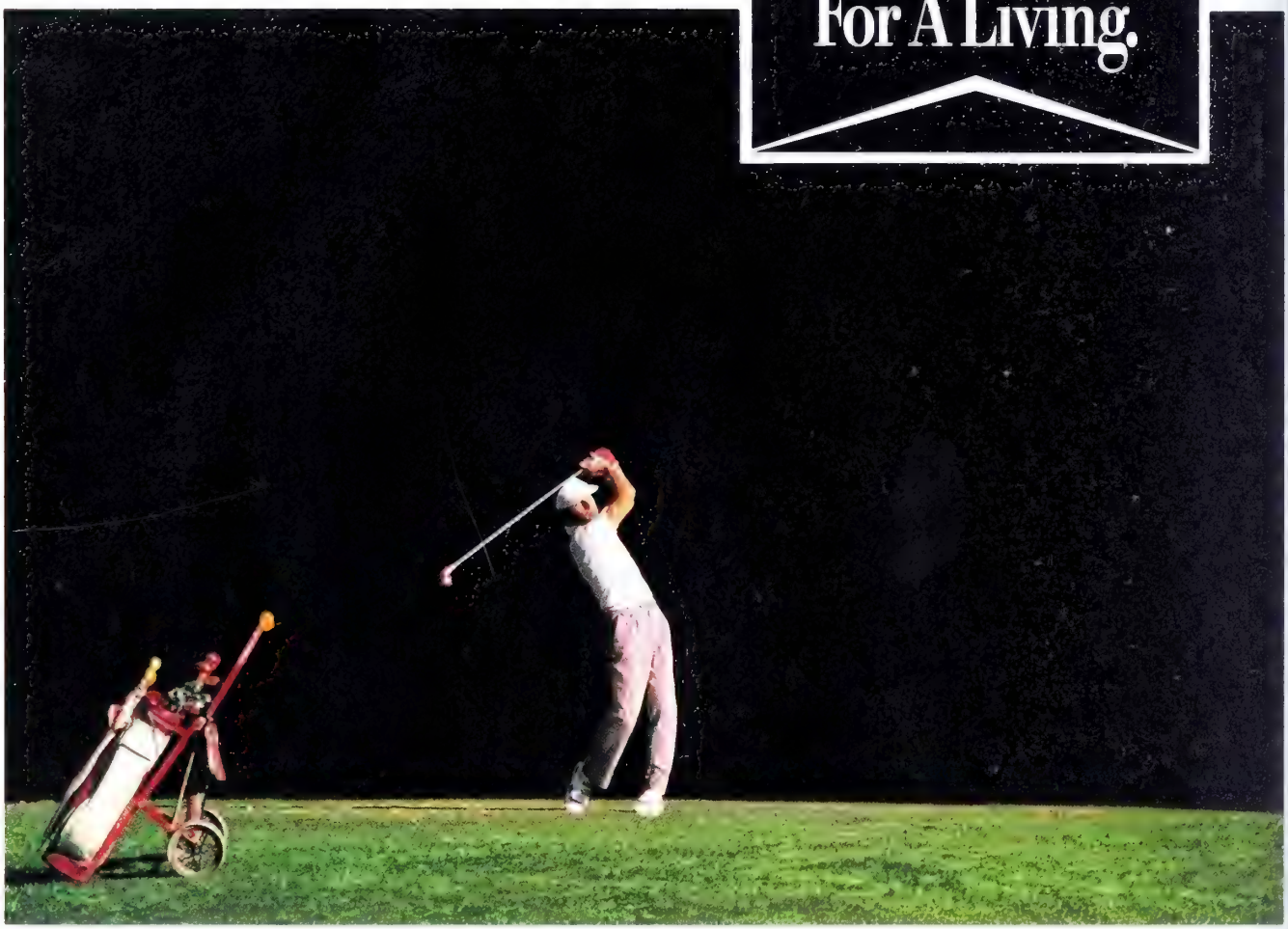

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The Boys From Long Island

Larry Laoretti with Jim Albus, winner of the 1991 Senior PLAYERS Championship.

When Mike Fetchick won the Hilton Head Seniors International in 1985, he had no idea that he was leading what would become a full-scale assault on the Senior TOUR by a regiment of Long Island, New York club professionals.

Seven years later, the Boys From Long Island have battled their way to surprisingly significant victories, victories which signify to them that golf just immediately to the east of New York City isn't just an island to itself.

Fetchick had once been the club professional at the Glen Head Country Club, just a half hour drive east of Manhattan. Within 15 miles of Glen Head were seven other professionals who made their living giving lessons on the practice range, selling shirts in the pro shop, and not coincidentally picking up some hefty pocket change in the hotly contested tournaments run by the Met (NY) Section of the PGA.

Jim Albus won the 1991 Senior PLAYERS Championship while still the club professional at the Piping Rock Club, six miles to the east of Glen Head. It was a staggering victory in which Albus remained a rock while the legendary Lee Trevino and the venerable Dave Hill melted into lava in the heat of the battle.

Larry Laoretti, once the club professional at the Pine Hollow Country Club about five miles east of Piping Rock, took the U.S. Senior Open this past July, leaving Jim Colbert and Jack Nicklaus in the exhaust of his cigar.

Mike Joyce, the club professional at the Huntington Country Club about five miles east of Pine Hollow, won the GTE Northwest Classic in August. His final round 64 eclipsed such Senior TOUR stars as Mike Hill and Jim Dent.

Four other Long Island club pros have qualified to play in a large number of TOUR events over the past three seasons. Carl Lohren of the North Shore Club, Roger Ginsberg of the Muttontown Country Club, Chuck Workman of Bethpage State Park and Mike Joyce's brother Tom of the Glen Oaks Club, have been foot soldiers in the Long Island regiment. Tom Joyce led the 1991 PGA Seniors' Championship after two rounds.

To Laoretti, now a star after three seasons on the Senior TOUR, the Boys From Long Island are more than a geographic phenomenon. "The Met Section is the most competitive section in the United States, there's no question about it," Laoretti says. To show how competitive, Laoretti never won a major tournament in the area.

"Other parts of the country like Florida or Texas or California just don't stand up to the Met Section," said Laoretti. "Good players gravitate to the Met area where they can play for a lot of money and still have very good jobs at very good clubs. It's really competitive just getting a job at a club there."

The Boys From Long Island became steeled to strong competition by playing in tournaments worth as much as $100,000 on courses in the New York metropolitan area such as Winged Foot and the Westchester Country Club. On Long Island itself, where there are more than 60 courses, The Boys would play Shinnecock Hills and the Meadow Brook Club, site of the Senior TOUR's Northville Long Island Classic.

"I don't think there's much doubt that the quality of play in the Met area is of such a high level that it kept us competitive enough to give the Senior TOUR a go," said Albus, who quit his job at Piping Rock to play the TOUR full time. While unknown to the golfing public at the time of his Senior PLAYERS Championship victory, Albus was known to many on the TOUR as one of the best club professionals in the U.S. for two decades.

Mike Joyce never ceases to wonder at the quality of courses where he honed his game. "We played very demanding courses that are in great condition," said Joyce. "We played tough, fast greens that are probably more difficult than the average greens we play on the TOUR. And we're not just talking about private clubs. Bethpage Black is one of the toughest and best courses you could ever play, and it's public."

It's also where he beat his brother Tom to win the Long Island PGA championship.

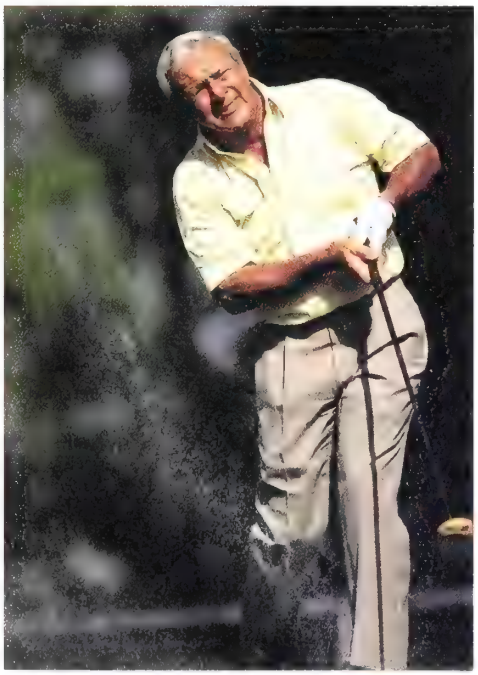
Former Masters champion Charlie Coody, a longtime TOUR player, isn't surprised by the success of the Boys From Long Island. "Whenever we came into the Met area to play a tournament, you just knew that the local pros would get their hands in your pockets. They play a heckuva game of golf."

Golf

STILL ON AN UPSWING

By John Steinbreder

The SENIOR PGA TOUR started slowly when it opened for business in 1980, with just two tournaments and only $250,000 in prize money. But since then it has soared higher than a Fred Couples drive, becoming in the process a stalwart on the American sports scene and one of the most successful ventures in professional athletics.



HUGH MORRISON/PGA TOUR

Arnold Palmer

How successful? Consider that next year golf's golden boys will play 43 tournaments for total purses in excess of $28 million. The average purse per tournament will be $650,000, up from $525,000 in 1992. Even in the face of a stubborn recession, TOUR revenues have risen 80% in the past five years alone, and the number of spectators and the amount of sponsorship money continue to grow. So does the television coverage. Neither of the 1980 events was televised, but next year 26 Senior events will be carried on network and cable TV. And the PGA TOUR recently extended its Cadillac Series agreement with ESPN to show Senior TOUR events through 1996.

Few thought such things would be possible a dozen years ago when six legendary professional golfers - Sam Snead, Julius Boros, Don January, Bob Goalby, Dan Sikes and Gardner Dickinson - met with PGA TOUR Commissioner Deane Beman and talked about starting a separate golf tour for the over-50 set. They had marvelled at the public's enthusiastic response to the Liberty Mutual Legends of Golf tournament, a nationally televised two-man event, and wondered if there'd be room for a tour featuring the great names of golfing past.

Beman was intrigued by the idea, and he got the PGA TOUR's Tournament Policy Board to financially support the project. During its early years the Senior TOUR had more problems than a duffer with a loop in his swing: television ratings were low, corporate sponsorship interest practically nonexistent, and the TOUR had to spend some $8 million just to keep it afloat. However, things started to get better.

They got better because golf fans couldn't resist the opportunity to watch Palmer and Casper, Beard and Barber, Player and Rodriguez compete against each other again. The Senior TOUR gave spectators another

Chi Chi Rodriguez

chance to see the big name players they had been following for the past 20 or 30 years. They started coming to tournaments and watching them on TV. Part of it was nostalgia, and part of it was that the Seniors still played an awfully good game of golf.

They were also very entertaining. They needled each other between shots and joked with the galleries as they walked the course. "The Seniors attracted a lot of people with their charisma," says Sam Gingrich, communications director for the Kroger grocery chain, which sponsors the Kroger Senior Classic at the Jack Nicklaus Sports Center in Kings Island, OH. "They were very relaxed and appeared to have a lot of fun. The crowds appreciated that, and they responded accordingly."

Timing was another important factor. "The Senior TOUR came into being just as the whole concept of event marketing was taking off," says Alex Morton, executive vice president at DMB&B, the communications agency that handles advertising and public relations for Cadillac, a longtime sponsor of both the PGA TOUR and SENIOR PGA TOUR. "It was also about the time that the entire golf industry started to explode. The number of players, courses and equipment manufacturers was increasing, and so was interest in playing, watching or being associated with the game. Suddenly, golf was the fastest growing sport in the world, and it was capturing the imagination of people everywhere."

Perhaps no group was more captivated than corporate America. The business community had been a big fan of golf for years, but the Seniors offered something more. These were players that most corporate executives and company decision-makers had grown up with. They knew these people better than those playing on the PGA TOUR, and so did most of their customers and business associates.

"The Seniors know it's incumbent on them to entertain as well as play, and they do just that," says Gene Hallman, tournament director for the Bruno's Memorial Classic in Birmingham, AL. "They interact well with the amateur golfers, with the corporate sponsors, with the volunteers, with the spectators. And they are also very gracious. You can't believe the number of notes I received from players after our event last year, thanking us for our hospitality and the way we ran our tournament. Where else in professional sports do you see stuff like that happening?"

Adds Sam Gingrich of Kroger: "A lot of professional athletes these days act like the world owes them something, but not the guys

he Seniors know it's incumbent on them to entertain as well as play, and they do just that.

Lee Trevino signing autographs for fans.

SAM GRIFFITH/WORLD PGA TOUR

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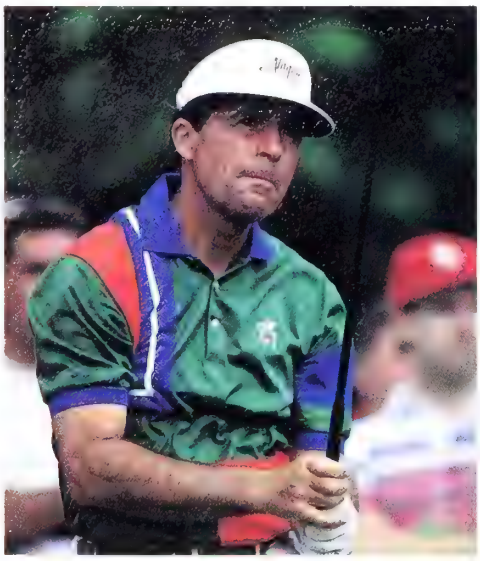

Gary Player

on the Senior TOUR," he says. "They seem to truly appreciate the sponsors, the crowds, the people who pay to play in the pro-ams, and they are willing to put a lot back into the game. Who wouldn't want to be associated with people like that?"

But the Senior TOUR is more than just well-known and well-mannered golfers. It is also a terrific sales and marketing vehicle for some of America's best known corporations. "The TOUR gives Cadillac a way to reach its target market of people in the 40-year-old plus, $60,000-plus demographic sector," says Alex Morton of DMB&B. "It helps us get to the high-income people, the decision-makers who love golf, especially as it is played by these wonderful and venerable athletes."

The results of that involvement are often remarkable. "We do a number of direct mail tie-ins and other promotions with the various Senior events that Cadillac sponsors," Morton explains, "and in the past three years the car maker can directly attribute $90 million in sales through its affiliation with the TOUR. That's 90 million reasons to keep linking Cadillac to the Senior TOUR, and we will do that. It has been the most successful marketing program in Cadillac's history, and in my 25 years in the business, I have never seen a program that has done so well."

Sam Gingrich can't say exactly what the Senior TOUR has meant to Kroger revenue-wise, but he does know that his company is delighted with its three-year affiliation. "We get fantastic exclusive exposure with a first-class, national level event," he says, "and we are also able to promote the event in our southwest Ohio area stores, which generates a lot of interest on a more localized basis. We think that sponsoring a Senior event is an excellent way to promote the company, and we also use it as an internal employee incentive program. Kroger is happy with what it's getting, and we're looking forward to doing it again in 1993."

The Senior TOUR has benefitted just as much from its close relationship with corporate America. Four-fifths of all Senior events are now backed by corporate sponsors, and the strong support of the U.S. business community has helped put more TOUR events on national television, boost attendance both in front of the TV at home and at the tournament site itself, increase purses to keep the big-name players coming back and bring tournaments to most of the country's major golf markets.

That success should continue well into the future.

CHI CHI'S *Charity*

By Tim Rosaforte

Shawntina is leaning on a shovel on this cold November night at the Chi Chi Rodriguez Golf Club. She knows it could be a light pole on a street corner. She knows that without Rodriguez, and the foundation he founded with Bill Hayes 13 years ago, she was headed down the same road as her parents.

"I'd say I'd probably be in the streets right now," this 13-year-old girl says without any emotion in her voice. "I'd be at a party, drinking and stuff, coming home late at night."

She is quite aware of where she could be on this night of ground-breaking for a privately-funded public school established by the Rodriguez Foundation.

"This girl is a true champion," Rodriguez says. Instead of looking for trouble and finding it, Shawntina is on the right course. Five years ago, she went to the National PeeWee tournament in Orlando and won her age division just months after picking up a golf club for the first time. Her instructors call Shawntina a natural. She has the talent to earn a college scholarship maybe even play pro golf someday.

"Chi Chi's like a father to me," Shawntina says, "He wants you to grow up and be somebody. He wants you to have a good career, have a good life, and believe in good things."

KATHLEEN HAY

Chi Chi Rodriguez and Bill Hayes and young fans at the Chi Chi Rodriguez Youth Foundation.

It's painful to think what would have happened had Hayes never been moved to seek out Rodriguez during the 1979 J.C. Penney Mixed Team Classic at Bardmoor Country Club. Hayes was taking classes for his masters degree in education at the University of Tampa and working at a detention center in Pinellas County. He drove out to the tournament in a rusted-out '68 Pontiac Grand

As the 1992 season ended

Big Bertha

was the #1 Driver on three of the four PGA Tours.

#1 on the Hogan Tour

DARRELL SURVEY

1992 BEN HOGAN UTAH CLASSIC
RIVERSIDE COUNTRY CLUB
PROVO, UTAH
SEPTEMBER 25-27, 1992

DRIVERS

✔CALLAWAY	57	41.3%
TAYLOR	29	21.0%
FOUNDERS	7	5.0%
MIZUNO	5	3.6%
PING	5	3.6%
DAIWA	4	2.9%
MACGREGOR	4	2.9%
BRIDGESTONE	3	2.1%
All other drivers	21	15.2%
Total drivers	135	

#1 on the LPGA Tour

DARRELL SURVEY

1992 LOS COYOTES LPGA CLASSIC
LOS COYOTES COUNTRY CLUB
BUENA PARK, CALIFORNIA
SEPTEMBER 24-27, 1992

DRIVERS

✔CALLAWAY	55	37.9%
TAYLOR	41	28.2%
DAIWA	15	10.3%
MIZUNO	5	3.4%
CLEVELAND	4	2.7%
LANGERT	4	2.7%
YONEX	4	2.7%
COBRA	2	1.3%
All other drivers	15	9.6%
Total drivers	145	

#1 on the Senior PGA Tour

DARRELL SURVEY

1992 VANTAGE CHAMPIONSHIP
(PGA SENIORS)
TANGLEWOOD GOLF COURSE
CLEMMONS, NORTH CAROLINA
OCTOBER 2-4, 1992

DRIVERS

✔CALLAWAY	37	45.1%
TAYLOR	20	24.3%
FOUNDERS	4	4.8%
PROBE	4	4.8%
SPALDING	4	4.8%
BRIDGESTONE	2	2.4%
CUSTOM	2	2.4%
ANVIL	1	2.4%
BULLET	1	1.2%
COBRA	1	1.2%
All other drivers	6	7.3%
Total drivers	82	

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Prix. The car was blowing so much smoke, it was a wonder they let him in the parking lot. But Hayes wasn't blowing smoke. His heart was in the right place.

It started with an autograph for the children from the detention center. Rodriguez said he would do one better. He would come to the detention center and put on a clinic.

"I had one of the boys put my watch on and hold my money clip with all my money in it," Rodriguez recalls. "All the kids laughed. I asked one of them why they were laughing. They said he was supposedly the biggest thief in the place. The boy says, 'Why me?' I tell him, 'It could have been me instead of you.' He was the first into the foundation, his name was Donnie."

KATHLEEN HALL

Shawntina Jackson and Christy Guiterrez with teacher and counselor Jayme Pecci.

Rodriguez didn't have much money in his clip back in those days. All he could give Hayes was $1,000. But he could give of his time. Six months later, he hosted a pro-am at Bardmoor that raised $12,000. That bought a van. The foundation grew to 18 children.

What Hayes and Rodriguez have done is utterly astounding. Together they have built their foundation into a $2.2 million a year venture. They are caretakers to two golf courses, and chairmen of a foundation that provides guidance for over 600 children a year. Discussions are under way to take the concept into third-world nations.

And it all started with an autograph, a rusted-out Grand Prix that blew smoke, and $1,000.

"When I pulled out of the parking lot at Bardmoor to drive back to the detention center, neither Chi Chi nor I ever thought something like this would happen in a million years," Hayes said. "We were just helping out a couple of kids."

The guidelines became a program to help children who are abused, or single-parented, are receiving some form of government support, have poor grades, are withdrawn or aggressive, or have broken the law. The original idea was to use a golf-course environment to teach basic vocational skills.

Rodriguez saw a little bit of himself in these children. He grew up in poverty himself, plowing sugar cane fields near his home in Bayamon, Puerto Rico. He was just a barefoot kid working for $1 a day. His job entailed carrying a stick with a nail hammered through the end of it. If the oxen wanted to turn off course, Rodriguez would poke the stick at them and the nail would persuade the proper course.

"I was fortunate, I didn't have to poke them a lot," Rodriguez remembers. "They knew where to go."

And without much prodding, so did Chi Chi. Luckily, he had a father who was there every night. He killed himself working for that family of eight, raising six kids on $18 a week. Juan Rodriguez, Sr. was once fired for having a heart attack.

"When I was younger I thought what a lot of people have, or had, I could eventually get," Rodriguez says. "And what I had, they could never get."

Although he had experienced some success as a professional golfer, Rodriguez wasn't very liquid when Hayes approached him for help. This was back before the Senior TOUR, when Rodriguez was spending $60,000 a year and making only $45,000 in PGA TOUR earnings. He would do as many as 116 corporate outings in a year for something like $3,000 a pop just to get by.

Now that he's a 21-time winner on the Senior TOUR, owns his own Sabre 60 jet,

've touched their lives," Rodriguez says. "But most of all they touched my life."

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Teonna Tucker and Chi Chi

and makes $30,000 a day for appearances, it all seems worthwhile. That is why Rodriguez is so inspired to give something back from the game that has been so good to him. "I've touched their lives," Rodriguez says. "But most of all they touched my life."

In some cases, that's all these kids needed. Just a touch of love and direction. Teonna, who comes from a single-parent household, says the Rodriguez Foundation "taught me how to be a good person." Shawn, whose mother passed away when he was 9, admits "when I was young, I was in trouble all the time." He was two Cs away from making honor roll this fall.

"Our goal is to give them back some hope, show them there is another way to live and show them that with some education, with a positive attitude, and with some self-esteem, they can make something with their lives," says Jayme Pecci, a teacher and counselor. "They all have talents and characteristics that are wonderful. But because of their environments, their lifestyles, what they've endured as human beings in their short time on earth, they've been knocked down, not built up."

ur goal is to give them back some hope, show them there is another way to live and show them that with some education, they can make something with their lives.

Cary Stiff, senior vice president for project development, was a volunteer when Shannon Falcone came to the foundation in the early 1980s. She remembers Falcone as being "extremely introverted with no sense of self-esteem whatsoever." But through the foundation, that all changed. Falcone realized the value of a college education. She began working in the accounting department of the foundation. Next year, she will graduate with an education degree from the University of South Florida. The foundation helped to put her through college.

It's kind of neat to see them grow up and see their self realization come full circle," Stiff said. "Now, when they see nine-year-olds, they see themselves and it's interesting to see the way they treat them. They see the road and know it so well. They know where the rocks are. They know that this age group is so impressionable, that they can go either way. It depends on who they decide to look up to."

When Falcone came to the foundation in 1979, it was before the acquisition of Glen Oaks Golf Club, an eighteen-hole public course in downtown Clearwater. Those were the days when Stiff and other volunteers would teach a handful of children in restaurants and clubhouses, when they would take children around to public golf courses on Friday afternoons for recreation. Glen Oaks became part of the foundation in 1984 when Hayes convinced city officials to lease the course for $1 a year. It was an easy sell. The course was losing $40,000 a year. With the children of the foundation working on the maintenance crew and behind the counter in the pro shop, it now turns a $60,000 annual profit.

It was through an "integrated incentive socialization" program devised by Hayes that golf became a role model and the vehicle to put these children in contact with successful people. It raised their self-esteem and taught them to live more by the rules. Golf was a sport of individual self-discipline, an area that these kids lacked.

Educators in the public school system first thought the idea was far-fetched. Then they saw it worked, that children who enrolled in the foundation improved in attendance, conduct, appearance and grades almost immediately.

A sign at the entrance of Glen Oaks explains the concept. It says, "Glen Oaks is not the greatest golf course in the world; the foundation's concept is not written by the smartest man in the world. But the labor of love that takes place on this land, free of fear or preju-

Annie Conyers and Terrika Tucker

lice, allows growth and equality to flourish. All of the landscaping, retailing, and most of the maintenance is done by troubled, single-parented, abused, or disadvantaged children learning to be productive, tax paying citizens. Like them, we hope you take a small piece of love from this land and give it to someone else."

In 1987, Rodriguez recruited Jack Nicklaus to play in The Chi Chi and the Bear Kids Classic. The $803,000 raised was the largest single-day fund-raiser in golf history. With that, the foundation began construction of the Chi Chi Rodriguez Golf Club and two of the learning centers school buildings. The land courtesy of the city of Clearwater was leased to the foundation for $1 a year.

Hayes helped design the course, in conjunction with Denis Griffith and Associates with offices in Braselton, GA. Wadsworth Golf Construction Company did the work, and in November 1989, it opened for play. In 1992, 58,000 rounds were played. But even when the course is packed, which it often is, children get priority treatment and are not charged greens fees.

"Golf is a big part of their programs," Pecci said. "It gives them a skill and a sport that would previously be for someone with money. It's also a wonderful way for them to let off steam."

The program has been so successful that Hayes has been approached by the governments of Nepal and Costa Rica to serve as a consultant to expand the Chi Chi Rodriguez Foundation into those countries. Hayes recently returned from London, where he met with the King of Nepal, who had heard about the program because it received the Point of Light Award from former President Bush.

"I thought to myself, 'Imagine going this far.'" Hayes said.

Hayes and Rodriguez have become quite a team. They are the perfect complement to one another, working together in concert in spite of Chi Chi's nonstop travel schedule. "It's a Lennon-McCartney type thing," Hayes said. "One writes the music, one writes the words."

In the fall of 1993, the Modesta-Robbins learning center will open on the grounds of the golf course. Named after the deceased mothers of Rodriguez and Hayes, it will be a five-building facility that will be the campus for 35 fifth grade Pinellas County students. Funds for the school building were donated by Morton Bouchard Jr., whose family owns the largest independent oceangoing oil-barge company in the country.

Bouchard met Rodriguez during the Northville Long Island Classic, the Senior TOUR stop near his company's base in Hicksville, Long Island. He came down to play in Chi Chi's pro-am, and was touched by what Rodriguez and Hayes had done.

KATHLEEN HALL

Chi Chi Rodriguez, André Martinez and Tericka Tucker

"What Chi Chi does for these kids is unbelievable," said Morton Bouchard III, the CEO for Bouchard Transportation Company, Inc. "He's the closest thing to God."

Rodriguez feels that a higher power has blessed him with the ability to touch these children and affect their lives the way he has. But he doesn't expect any paybacks. Giving is the greatest reward.

"I just feel like I'm in heaven, the peace of God comes over me, when these kids touch me on the shoulder and say, 'Uncle Chi Chi,'" Rodriguez said. "That, to me, is the most incredible feeling I've ever had in my life."

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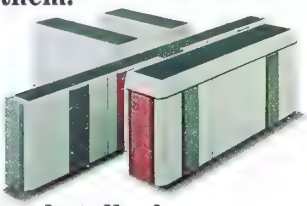

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Cruisin' the links

by Paul Burnham Finney

Most people aren't aware that when you go on a cruise, you don't leave golf behind. The fact is, you can do it all – both enjoy a cruise and play golf.

That's exactly what the Royal Caribbean Cruise Lines had in mind when it came up with the closest thing to a seaborne 18-holer: a "Golf Ahoy!" package that provides golf aficionados with a rich assortment of Caribbean courses to play. At least a half dozen cruise lines offer golfing ashore along with sun, sea, sand and shopping. But RCCL's fleet, weaving in and out of the Caribbean and Bahamian islands and dropping in on Bermuda as well, handles the golf arrangements with more finesse than most.

"The *Monarch of the Seas* shows up just about every Saturday with seven or eight foursomes in a big, open safari van," says Christine Macken, director of marketing (and good golfer herself) at Mahogany Run, a treacherous tract designed by Tom and George Fazio that zigzags up and down the steep hills of St. Thomas. "They do have golf nets aboard ship for limbering up. But when they arrive here, they're pretty excited. Just making it over the mountain is an adventure. And the course has such a fun layout."

"I've played Pebble Beach, but this is more breathtaking," is how one recent *Monarch* passenger described his morning at Mahogany. Or as another player put it, "I was almost gasping to see where the next hole would be."

The classy cruise line, with some of the biggest ships afloat with apt names like *Sovereign of the Seas*, is of course the angel for the Royal Caribbean Classic (see sidebar, 'A pot of gold for Key Biscayne Seniors), a lead-off in the Senior TOUR. You can watch the show in Miami, the hub of Caribbean cruising, and then test your own golfing skills on an island-hopping wingding aboard the

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Song of Norway, *Song of America*, *Majesty of the Seas* or sister ships in the RCCL flotilla.

"'It's my dream to play a different island every day – Jamaica on Monday, Antigua on Tuesday, Barbados on Wednesday,' golfers will tell me," says Marty Cohn, Royal Caribbean's marketing wizard. "And that's exactly what we let them do."

"Some of our passengers are absolutely terrific golfers, and even come as a group with their club pro," adds Cohn. "And a lot are just weekend players out to have some fun."

For a warm-up, Royal Caribbean will fly you into the Miami area a day before sailing so you can play the Blue Monster at the Doral Resort & Country Club, site of the annual Doral Ryder Open, the devilishly difficult course that can fool you every time if you slice a drive or hook an approach shot.

RCCL's island golf menu includes 17 courses. For an appetizer, disembark at Ocho Rios, where Jamaican rum, reggae and romance blend into a tropical cocktail, and play 18 holes at Runaway Bay Country Club – "a jolly good course," as local Brits like to say as they ponder the 7th hole that winds down a rocky ravine with walls so close they practically mask the green.

For deep dives – and the deep pockets of off-shore banking – look no farther than Grand Cayman, a civilized enclave with creative golfing at the sophisticated Hyatt, where links architect and legend Jack Nicklaus has worked his magic. The Britannia playground is a three-in-one course: a normal nine-holer, a second one with a dozen shots over water and a cute third confection where you play "Cayman Golf" with a specially designed ball.

If your ship leaves from San Juan, you can book a tee time at the Hyatt Regency Cerromar Beach's two Robert Trent Jones courses. They're lush layouts on former grapefruit-and-coconut plantations with fast play, broad fairways and few greens trapped in front. When you're in the tough rough, it's usually well off the fairway – and just pick off a stray coconut while you're figuring how to get out.

For a cameo portrait of exotic golfing, none looks more enticing than St. Kitts, 65 square miles of rain forests and secret beaches shaped like a cricket bat and topped by a sleepy volcano. The isle, which the *Nordic Prince* visits, may be lilliputian, but the Royal St. Kitts course is a doozy – a fifth hole confronting the turbulent Atlantic and a 12th hole nestling by the tranquilized Caribbean, with seven lakes lacing the fairways. It's not the Westchester Country Club or French Lick Springs.

If you want to gorge on golf, the *Monarch* provides a full plate of five courses in a seven-day cruise. It's *jouez au golf* at the chic Country Club de la Martinique where the greens are petite and the ponds, streams and bunkers *magnifique*, one of the most aesthetically pleasing courses Robert Trent Jones ever blueprinted. At Bridgetown on Barbados, another British outpost of empire, you head 30 minutes away to Sandy Lane, a sugar plantation turned resort where bluebloods add their own color to the greens – it's a course where a high handicapper can break 100.

Of the *Monarch*'s quintet of golfing shore leaves, the one that repeatedly gets most of the applause is Mahogany Run. The big act is the "Devil Triangle," a 13th, 14th and 15th hole that stretch together can put your game to shame – the pro shop gives you a certificate if you play all three without a penalty stroke.

Bermuda, pink and pretty, seems a world away, but after you've played the par-three 16th hole – over the ocean to an island of green – or teed off at majestic Marriott's Castle Harbour, you may begin to develop that stiff upper lip the British make their trademark as you take on challenges, undaunted. Your Royal Caribbean ship, tied up at Hamilton's boutique-filled waterfront or in historic St. George's, is your hotel. And if you've suddenly become the Golden Bear for a day, you can toast to the eagle you've landed – in the gaiety of your cruise ship's nightlife.

A Pot of Gold for Key Biscayne Seniors

Hurricane Andrew really chewed up the links – : knocked down or broke up 75% of the trees and rowned the fairways," says Russ Sell, tournament irector of the Royal Caribbean Classic, recalling vhat hit the Key Biscayne setting for the Senior OUR event. "For a time there, we thought we veren't even going to have a golf course, let alone ur Senior TOUR show.

"But we got it together by flushing the salt out of he course with thousands of gallons of water. The rews we brought in planted 400 new trees, mostly alms," adding, "They hold up very well in hurricanes. hey'll get knocked over, but you can stand them ack up in no time."

It's that can-do attitude and attention to detail hat has made Royal Caribbean a near-perfect golfing artner for the Senior TOUR's first full-field event, s well as official cruise line of the PGA TOUR.

Recently, nearly a hundred thousand spectators nd camp followers watched the fifty-something layers go for a purse that was only $400,000 three ears ago but by now has swelled to $750,000.

The Senior stars, of course, don't pocket it all.

"The SENIOR PGA TOUR has a mandate that a ertain amount of the money goes to charity," ays RCCL's Marty Cohn. "And we've been right in tep with contributions to the Miami Project to Cure Paralysis, the Nick Buoniconti charity and the ackson Memorial Hospital."

RCCL began bonding with the Senior TOUR ack in the mid-1980s when there were only 25 or o events and $6 million in prize money. Few regions of the country had a greater addiction to golf than outh Florida, and the Links at Key Biscayne, a simply eautiful 6,725-yard, par-71 course with Miami sea-capes and skyscrapers as a backdrop, was the right ite for a Senior TOUR event under the sponsorship of auto dealer Gus Machado and promotion-minded Dade County. But it didn't have quite enough moxie, articularly with the play in the October and November off season.

When Royal Caribbean sailed into the picture, he linkup was demographic dynamite.

"We already had some tie-ins with the Doral Ryder Open," says Sell, "so our name was known n the Miami area. And – let's not kid ourselves – Royal Caribbean was moving into the big, big time s a $1 billion cruise line. A lot of people on a cruise also have a passion for the game. Older, well-to-do people like Senior golf."

In 1990, RCCL took over sponsorship of the Senior TOUR's Key Biscayne event putting up an ample $400,000 purse for the Royal Caribbean Classic. The launch was A-OK. For openers Lee Trevino, who had joined the Senior TOUR the previous year, made up seven shots over the last nine holes to defeat Butch Baird and Jim Dent with a 7-under-par 206 – and raked in $60,000. It was a banner year for Trevino, who finished the season as the SENIOR PGA TOUR's Player of the Year.

In 1991, with the purse fattened to $450,000, Gary Player started slow but finished strong. In the first round he trailed Bruce Crampton and Chi Chi Rodriguez but picked up speed and came in two strokes ahead of Lee Trevino, Bob Charles and Rodriguez to win $67,500 with a 13-under-par 200. Last year, it was Don Massengale's turn – at age 54 – to take the Royal Caribbean Classic with an 8-under-par 205. In 1993, with more sponsors climbing aboard, first prize escalated to $112,500.

"The thing that makes the Links interesting, besides the water and gorgeous surroundings, is the wind," says tournament director Sell. "Because you're on a cay, you always have the wind to contend with along with the Bermuda greens. The 18th hole is the great challenge. The wind is from left to right. On the left is the lake and on the right the bay, so it's a tight driving hole. Two years ago Dent lost the tournament by one stroke on the 18th."

"It's not a made-for-TV, specialized event," adds Sell. "Sure, there's show biz mixed in. Everybody has a good time. But while we're about it, we like to think we stage a quality event."

There's no doubt, too, that the Royal Caribbean Classic rides on the crest of the Senior TOUR's success.

"Every year you have a new batch of stars – like Raymond Floyd and Tom Weiskopf and Calvin Peete," says Sell. "These are the guys who've been winning the tournaments. Their statistics are good. They're sharp with their game. It makes great viewing."

Better/Halves

by Helen Ross

Their husbands were out playing golf. So Lynette Coody, Verity Charles and several of their friends had gathered on the beach on Maui that fall day four years ago.

The sand at their feet was glistening white, almost alabaster. The vivid sun overhead heated up the October day, reflecting off clear water of the Pacific like a giant mirror. All things considered, it was not a bad way to spend a relaxing afternoon.

But those women wanted more.

When their husbands had celebrated their respective 50th birthdays, you see, the men essentially had been reborn. Charlie Coody, Bob Charles, et al, could make a living playing golf again — this time on the lucrative SENIOR PGA TOUR.

Each week now, home was a different hotel in a different city. The tournaments played at resorts like Kaanapali, where the wives had congregated that afternoon, were particularly attractive, of course. But women like Lynette Coody and Verity Charles had enjoyed pretty full lives of their own.

While their husbands were living the vagabond lives of golf professionals, the wives raised their children and worked jobs of their own. Many had essentially managed their husbands' business affairs in those days before golf became big business.

Coody had worked at a golf club her husband helped develop in Abilene, TX. She did some of the accounting and all of the buying for the pro shop. Previously, Coody, who has a degree in business, had worked as a legal secretary.

"Then all of a sudden, Charles sold out of the golf shop to play the Senior TOUR," Lynette said. "I thought, 'Oh my, what am I going to do?'"

Verity Charles and several of the other women had experienced the same emotion. Now that their husbands were competing full-time again, they felt like little more than traveling companions. Hence the impromptu coffee-klatch on that beach on Maui.

"We just wanted to do something useful and keep our minds active," Coody said. So under that royal blue sky, the women started talking about

Lynette Coody and Verity Charles

their options. Coody mentioned a study club she had been part of back home in Abilene, TX. The group met twice a month, with one member responsible for presenting a program on a pre-arranged subject at each session.

Charles Coody

That was a good suggestion, but Charles took the idea one step further. Doing the research for a study group might be difficult as they piled up all that frequent flier mileage. But how about an investment club?

The idea of learning more about stocks and bonds instantly appealed to the women. They decided to limit the group to 12 – a dozen women who would actively participate in the programs as well as the decision-making process. In addition to Charles and Coody, some of the original club members are Vivienne (Mrs. Gary) Player, Iwalani (Mrs. Chi Chi) Rodriguez, and Patsy (Mrs. Lou) Graham.

Although their husbands sometimes make more money in a single tournament now than they did in a year on the PGA TOUR, the investment club keeps the stakes low. The initial expenditure is $500, with dues of an additional $100 per month.

"I always tell Charles I can invest (his winnings), but it doesn't do much good," Coody said with a chuckle.

The club meets monthly. Each member has a different stock to track, and each meeting includes a portfolio review. Then the club decides which new stock they want to invest in, or whether to sell some of their existing stocks.

"We have found that our investments in blue-chip stocks have done well, rather than the high-risk ventures," Coody said. "We always work with stocks we can follow on the investment pages. We have not put any money into mutual funds.

"We'd like to get into stock options and learn to read the balance sheet of a company. We've got some new girls this year, and they'll be learning the basics. But while they do that, we want to go a little deeper into it."

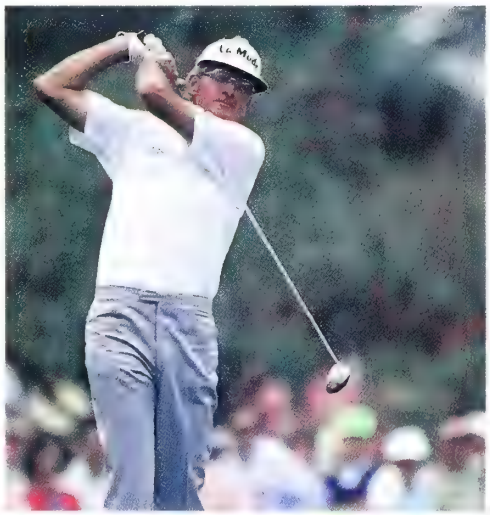
Sometimes the portfolio review includes a first-hand report – like the time Player and one of her daughters toured EuroDisney, a stock the group bought before the theme park even opened. Other meetings include tips gleaned from businessmen the women encounter at pro-am dinners.

"We have fun and we learn a lot," Coody said. "If it got too stilted or businesslike, we wouldn't want to do it. The beauty of ours is that we've kept it around 12 girls, so everyone can participate. We haven't lost the hands-on approach."

The club has $1,200 available to invest each month in stocks ranging from health care to tobacco to utilities to banks. The club's first purchase was Pfizer, a drug manufacturer. Over the four years the club has been in existence, the return has been about five percent.

"And that's not bad for rank beginners," Coody said proudly.

"But a little knowledge can be dangerous sometimes. We do not really know when to buy or sell. And since we only meet monthly, and can't sell without a majority, we've missed some things. We've sold too early and sold too late."



Bob Charles

JEFF MCBRIDE - PGA TOUR

But several of the women in the club have relatives from whom they can seek advice. Graham's son-in-law is a stockbroker in Atlanta, and he gave the club a refresher course. Coody occasionally runs things by her son, Kyle, who has a degree in finance from the University of Texas and sometimes caddies for his father.

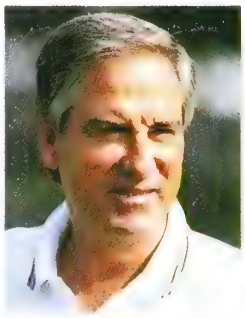
As a general rule, though, the husbands maintain a low profile. They are very supportive, Coody says, but never sit in on any of the meetings. Every once in a while, though, one will question a decision or suggest a stock to buy.

"We say, 'Tough. This is our deal,'" Coody grinned. "We're successful in that we haven't lost a lot of money, and they're thrilled with that."

he beauty of ours is that we've kept it around 12 girls, so everyone can participate. We haven't lost the hands-on approach.

Senior TOUR Golf Tips

By Dave Stockton
with Phil Stambaugh



When he gets on the green, watch out! It doesn't matter the situation – uphill, downhill, sidehill, left-to-right, right-to-left, double-breaking, four-footer or forty-footer – he expects to make them all. Dave Stockton talks about the same putting stroke he's used over a pro golf career spanning almost 30 years with such confidence, you get the impression he's holding a magic wand and not a golf club in his hand.

Last year in his first full season as a rookie on the SENIOR PGA TOUR, Stockton was the statistical leader in putting and earned Rookie of the Year honors. The Mentone, CA resident claimed his first Senior TOUR victory at the Mazda Presents The SENIOR PLAYERS Championship when he sunk clutch birdie putts of forty-five and eight feet at the TPC of Michigan's final two holes to rally from three shots behind and overtake J.C. Snead. Afterwards, when describing the winning strokes to the media, it was curious to hear Stockton say, "If those putts would not have gone in, they wouldn't have been very far away from the hole. Very few of my putts hit the back of the cup."

Putting is almost a game within a game to Stockton. The major problem on the greens he sees with most of his amateur partners in pro-ams around the country is what he calls "bad speed," the inability to consistently stop the ball somewhere around the hole on the first putt. It is much more important than line because the direction can be off by an inch or two and the ball still has a chance to fall in the hole. With the wrong speed, the ball is either never going to get to the hole or will go past a considerable distance.

When he was a youth in California, Stockton was taught by his father to always die a putt at the hole. He placed golf tees 16 inches behind the cup and told his son never to roll the ball past those tees. The younger Stockton's touch became so good that if the ball did not fall in, it would seldom be more than a foot or two past the cup, resulting in an easy tap-in.

Most amateurs tend to be inconsistent with their putting stroke. With bad speed, they usually encounter more than their fair share of five and six-foot par savers. When the inevitable three-putts start to happen, the confidence becomes shaken.

Stockton, however, has an easy cure for those with bad speed. He believes the problem is a direct result of a player swaying the upper body or head during the putting stroke and maintains perhaps 90% of all putts missed by either pros or amateurs can be attributed to this excess motion.

To correct this and achieve the proper speed at the same time, Stockton suggests incorporating a technique called "spot" putting into the normal routine on the green. Spot putting allows a player to stay steady on putts. Most golfers think this means looking at a point on the line of the putt two or three feet in front of the ball. Stockton's idea is different. "Pick a spot LESS THAN ONE INCH ahead of your ball," he says.

His normal putting procedure is to first figure which way the putt will break and then gauge the speed at which the ball will roll. Once set over the ball, he will take a final look at the hole before striking the putt. However, his eyes return to the imaginary spot on the ground LESS THAN AN INCH IN FRONT of the ball rather than to the ball itself! While concentrating on this short target, he'll then strike the ball and watch it roll over the mark. "If I can see it go over the spot I've picked out and have a reasonable idea about the line, chances are I've made the putt," notes Stockton.

During your golf career, how many times has a fellow amateur told you that you're not making putts because your head is moving? Stockton believes the head is going to move slightly during putting and there's no way to avoid it. Concentrate on that one inch ahead of the ball.

The key is to train the eyes to focus in on a particular area just in front of the ball and then watch it roll over that mark during the stroke. On the practice putting green, "Captain Dave" likes to exaggerate his spot by pushing a tee into the ground an inch in front of his ball. Once he's assured the ball has crossed over the tee in the ground and is on its way towards the cup, any head movement will not make a difference.

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Senior TOUR Golf Tips

By Gene Littler
with Phil Stambaugh

Tempo, tempo, tempo. No style points are awarded for it in the game of golf yet it's the key ingredient towards posting lower scores. It is best defined as a combination of rhythm, pace and balance that when done correctly makes an athletic move look effortless.

Gene Alec Littler's name is mentioned most often by golf purists as that active player over the age of 60 with the best tempo, and today he serves as an inspiration to all senior golfers striving to achieve and maintain a fluid motion throughout the golf swing.

Even though he's had to battle a variety of physical ailments during his career, including a fight with lymph cancer in 1972, Littler has been able to maintain his smooth, sweet swing. His accomplishments are certainly reflected in a career that began after he won the 1954 San Diego Open as an amateur. "The Machine," as he was later nicknamed, went on to win 28 more official PGA TOUR events including the 1961 U.S. Open at Oakland Hills, MI. Thus far, he's claimed eight Senior TOUR titles, and in 1992, he recorded seven Vantage Classics victories, the most by any player in the age 60 and over competition.

Littler claims he learned the secrets to good tempo as a youth at LaJolla Country Club near San Diego where he was fortunate enough to be able to watch Sam Snead work on his game while serving a stint in the United States Navy. In his mind, two essential ingredients make up a fluid swing.

The first of Littler's rules for good tempo comes when the club is taken directly away from the ball at the start of the golf swing. He believes that a person just starting out in the game can never take the club away too slowly for the first few feet in the backswing. With a nice, slow pace early in the motion, he's got a good chance to develop good tempo throughout the entire golf swing.

The second critical part comes at the top when a transition is made from backswing to downswing. A quick jerk at this crucial time will almost certainly set off a chain reaction that results in a mishit shot. If the transition is orderly and smooth, the player has a good chance to strike the ball solidly.

Littler's advice to amateurs in many pro-am events is to add an extra step to the two mentioned above. He recommends painting a mental picture and predetermining in your mind that the swing is going to be slow away from the ball. The tempo will already be started correctly even before any action is initiated in the golf swing.

With a long iron, the idea should be the same as with the shorter clubs. Good players all save their power until the clubhead gets to the ball and believe in relying on the club to do the work. The outcome is a direct result of the smooth transition from backswing to downswing at the top. "Most people don't develop any distinction between the two types of swings that they have to make," Littler says. "High-handicappers usually do everything in one quick motion, and while I don't recommend a pause at the top, a player must be able to feel the difference during a transition and recognize that there is one."

He emphasizes that rhythm should not be confused with tempo. Many fellow touring professionals on both the PGA TOUR and SENIOR PGA TOUR have a quick rhythm but possess smooth tempo. "Sometimes I have too fast a rhythm for my type of swing and will need to slow myself down," Littler says. "When I get fast, it might still be slower than someone else's pace and what works for him. Everyone does not need to go real slow but must maintain an even speed through the transition."

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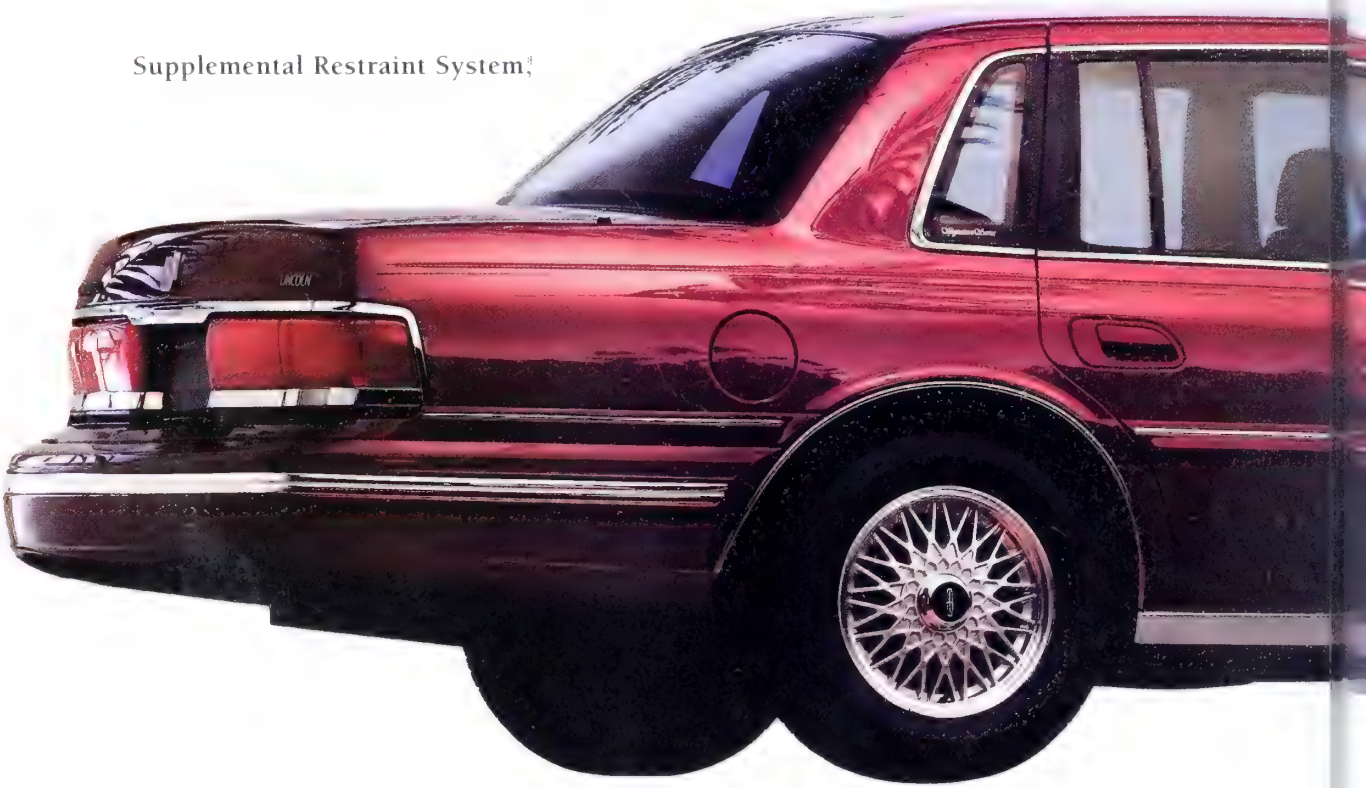

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TTING EDGE: WHITWORTH IS AIMING TO SHAKE UP ENTRENCHED MANAGEMENT

'HE ROSS PEROT OF INVESTOR RIGHTS

alph Whitworth is one gadfly corporate boards can't shoo away

ast September, when IBM first asked shareholder activist Ralph Whitworth to stop badgering the mpany about its performance, Big ue assumed the shape of three mid-vel executives and a corporate counsel aring a box of slides. Problem was, ne of them had brought a slide projec-r. After Whitworth scrambled around s spartan Washington (D.C.) office to d one, his reward was a cursory pres-tation explaining why IBM's problems eren't as bad as they seemed. "I asn't impressed," says the 37-year-old esident of the United Shareholders ssn. (USA). "It was clear to me why M is in so much trouble."

By Jan. 26, the computer giant had arned to take Whit-orth and his army of ,000 small investors a t more seriously. With th its share price and rnings in a free-fall, M announced that hn F. Akers would be epping down as chief ecutive and several eps would be taken to osen management's rip on the company's board. IBM's sorry performance had set the stage for the radical changes (page 22). But much of the pressure the board felt was brought to bear by big institutional investors coalesced around four tough proxy resolutions written by Whitworth and his USA staff.

When it comes to shareholder clout, Whitworth is not in the same league as institutions such as the California Public Employees' Retirement System (CalPERS). But he serves a vital role. As the proxy season approaches, his populist attacks on entrenched management have helped make him the Ross Perot of investor rights. The billion-dollar funds prefer to pressure management from behind the scenes. Whitworth is the movement's loudmouth. "He plays the role of the bad cop," says CalPERS General Counsel Richard H. Koppes. "That allows us to be the good cop."

Whitworth isn't acid-tongued. He just says what he thinks. He's always ready with a blunt quote for reporters. And USA's annual "Target 50" list of companies deemed disrespectful of investor rights creates lots of embarrassing publicity. But for all his bluster, Whitworth is no radical table-pounder. Instead, executives say, he preserves credibility with a levelheaded grasp of the issues. "I'm quite impressed with him," says Dale R. Laurance, executive vice-president at Occidental Petroleum Corp., which settled with USA over golden parachutes. "He's good at what he does."

'COERCIVE TACTICS.' Since rule changes by the Securities & Exchange Commission have made it easier for Whitworth to get USA's barrage of shareholder resolutions into proxy materials, CEOs are scrambling to avoid becoming USA targets (table). The reason: USA's proxy measures—challenging everything from CEO compensation to poison pills—get far more than the scant 1% or 2% of votes that gadfly proposals usually garner. Last year, USA's resolutions won an average of 40% of the votes cast, up from 17% in 1990. "That should send a pretty strong message to the board," says one CEO.

Not surprisingly, Whitworth has plenty of critics. Some dismiss him as a publicity hound who goes after companies unfairly. "I question his methods," says John C. Wilcox, chairman of Georgeson & Co., a proxy-solicitation firm. "He uses coercive tactics."

Whitworth does not deny that he likes to grab headlines, but he makes no apologies either. Unlike big institutions, whose power derives from billions in investments, USA is a grass-roots organization, whose survival depends on membership fees starting at $50 from small investors. USA thrives by making noise, and Whitworth figures the more he gets quoted trumpeting his victories, the more investors he'll attract.

Whitworth hardly lives like a typical activist. A Washington yuppie, he drives a Jeep Cherokee and cooks gourmet food for his wife Wendy Walker, a news producer who covers the White House for Cable News Network. His background, however, is strictly middle class. He grew up in Winnemucca, Nev., the son of a

A SAMPLING OF WHITWORTH TARGETS

CHAMPION INT'L	Link executive bonuses to share price
SEARS	Split offices of chief executive and chairman
AMERICAN CYANAMID	Change board-nominating and compensation committees to include only outside directors
POLAROID	Get shareholder O.K. on "poison pill" antitakeover measure
USAIR	Require shareholder approval of golden parachutes

DATA: UNITED SHAREHOLDERS ASSN

mining engineer. Until he went to college, at the University of Nevada at Reno, he was content to tool around in his red 1965 Pontiac GTO and make a few bucks as the local whiz at fixing anything mechanical.

His life shifted into a higher gear in the summer of 1981, when he met Paul Laxalt, then Nevada's Republican senator, and landed a staff job in Washington. During a five-year Capitol Hill stint, he worked on President Reagan's 1984 campaign and earned a law degree from Georgetown University.

Along the way, he met Mesa Petroleum Chairman T. Boone Pickens. Whitworth dated Pickens' daughter, and although the romance didn't last, T. Boone hired him as an assistant in 1985 during the heyday of hostile takeovers. It was Pickens who formed USA, in August, 1986, making Whitworth his chief of operations (Pickens left in 1990). Critics derided the group as a thinly disguised vehicle for undermining the targets of T. Boone's raids. It was up to Whitworth to establish its credibility as a force for shareholder rights.

MEDIA BLITZ. He did so shrewdly: Whitworth came up with the idea of monitoring a list of 1,000 companies and choosing those that coddled management despite poor performance. The worst offenders were subjected to a media blitz. Figuring that local headlines made executives squirm as much as national coverage, Whitworth tailored pointed press releases for hometown papers. And by sticking to the economic issues that most piqued institutional shareholders (no South Africa measures, for instance), he could create a bandwagon effect.

Whitworth receives no pay for his part-time USA duties. He relies instead on a six-figure annual income from a lobbying practice with a handful of mining and energy concerns as clients, including Mesa Petroleum and the Bronfman brothers of Canada. Whitworth insists that his consulting business poses no conflicts with his shareholder work. He argues that his clients are either foreign-based or too small to merit USA's scrutiny. He has to be careful, he says, because "some companies would love to take a shot at us."

Whitworth is not short on ego. The IBM tussle, he says grandly, "was clearly one of the biggest battles in corporate activism." He notes that, only days before Akers stepped down, IBM negotiated settlements on two of the four proxy issues USA had slated for its upcoming annual meeting. Whitworth still needs big friends like CalPERS to get things done. But as support for USA's proposals grows, his targets will have to give shareholder democracy—and Ralph Whitworth—a lot more respect.

By Michael Schroeder in Washington

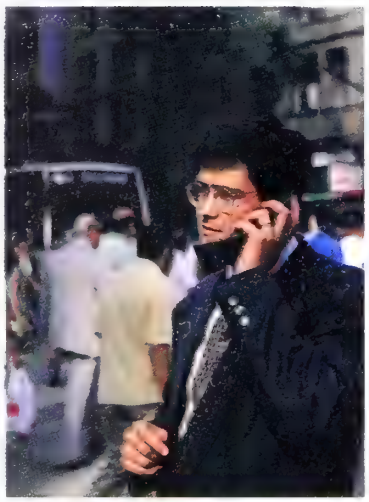
TELECOMMUNICATIONS

THE CELLULAR CANCER RISK: HOW REAL IS IT?

Evidence of harm is scant, but fear may limit industry growth

For years, scientists and the public have grown increasingly concerned about a possible cancer risk from electromagnetic emissions. First, it was from high-tension power lines, then electric blankets and the electric motors in bedside clocks. Now, a new specter has appeared: pocket-sized cellular phones.

The cancer scare could be the first serious trial for the booming cellular industry—and for the dozens of new wireless services now being readied. Already, cellular calling has attracted 10 million users in the U. S., and the industry shrugged off the recession, doubling the number of subscribers in the past three years. With a new generation of lighter and cheaper phones in the works, analysts have been optimistically predicting that cellular revenues could double by 1997. Plans are being drawn up to pour billions of dollars of investment into these new services, called personal communications networks. Meanwhile, the computer and telephone industries also are planning handheld devices such as "personal communicators" and "personal digital assistants" that can send and receive faxes, data, and other messages via cellular networks. It is all part of an emerging wireless world that could transform communications.



POCKET PHONES PUT TRANSMITTERS ALONGSIDE THE USER'S HEAD

FIRST DOUBTS. All those grandiose visions could be scaled back if the general public suspects—whether there's a scientific basis for their fears or not—that cellular phones and other wireless communicators cause cancer. The first doubts were planted in the public consciousness by a suit filed by a Florida man against phonemaker NEC Corp. of Japan, cellular operator GTE Corp., and a phone retailer, charging that his wife's fatal brain tumor was caused by her heavy cellular-phone use. In an eerie coincidence, news reports of the si surfaced about the same time that brain cancers of two corporate CEOs— stereotypical cellular-phone addict were disclosed. Reginald F. Lewis TLC Beatrice International Holdings I died from it on Jan. 19, and the follo ing day, Michael H. Walsh of Tenn Inc. disclosed that he is being trea for the disease.

Never mind tha isn't even clear th these men were hea cellular-phone use The cancer sc quickly spread, and vestors knocked do the stock prices McCaw Cellular C munications Inc., nation's largest ce lar operator, as w as the stock of Mot ola Inc. and oth companies connect with the industry.

The stocks quic revived, but now th the issue has be raised, it won't be e ily laid to rest. "It be an issue that w have to address," says Paul Chellgr president of Nokia Mobile Phones I the second-largest seller of cellu phones in the U. S.

As of now, however, it's impossi to grant cellular phones a clean bill health—or to prove their dangers. Fir no one has a clear idea how, if at all, radio portion of the electromagne spectrum might cause physical har Second, even if there's harm on the c level, it's extremely difficult to prov link to cancer.

Biologists do know that strong elect magnetic fields, such as those inside microwave oven, can heat up body sues, causing injury or death. Traditi ally, scientists have assumed that i field is too weak to cause heating, th it is probably safe. But now, some exploring whether weak fields mig cause damage through some other me anism, such as interfering with the n

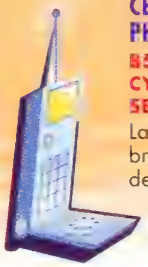
ELECTROMAGNETIC FIELDS FOREVER

Scientists are still trying to figure out what hazards, if any, are posed by the electromagnetic fields generated from a growing number of sources. One complication is that different frequencies have different biological effects—and the frequencies vary widely. Here's a look at some electromagnetic sources that have attracted attention:

POWER LINES
60 CYCLES PER SECOND
1992 Swedish study finds more leukemia in children living near power lines; U.S. government finds no such effects

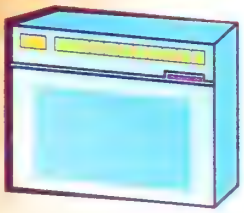
ELECTRIC BLANKETS
60 CYCLES PER SECOND
To allay health concerns, manufacturers have designed blankets with weaker fields

VIDEO DISPLAY TERMINALS
60 CYCLES AND 20,000 CYCLES PER SECOND
No firm evidence of danger, but new screens emit less radiation



HANDHELD CELLULAR PHONES
850 MILLION CYCLES PER SECOND
Lawsuit charges brain cancer death caused by use; no studies prove link

MICROWAVE OVENS
2.8 BILLION CYCLES PER SECOND
Newer ovens don't leak radiation. There's no evidence to date of other possible dangers



DATA: BUSINESS WEEK

l electrical fields of cell membranes. ephen F. Cleary of the Medical College Virginia in Richmond has found that, en without heating, strong fields both ove and below cellular frequencies mulate the growth of tumor cells that ve been removed from the brain. But ner scientists say such an effect is im- ssible. "There's no such viable theory," ys Yale University physicist Robert lair.

OSE ENCOUNTER. Given the prelimi- ry nature of the findings, Nokia's ellgren says the industry needs to do ore research and then communicate e results to the public. Indeed, in the years that cellular has been in wide- read use, no conclusive studies have en conducted. Most research has cen- red on low-frequency electromagnetic diation, such as that from power lines d video display terminals, rather than the higher-frequency levels used by llular phones.

The way pocket-size cellular phones e designed seems to raise questions. nlike car phones or the older, luggable rtable cellular phones, the handheld riety places the radio transmitter ongside the user's head. That leads to e concern about radio waves entering e brain as they seek out the nearest llular transmitter site. Indeed, Motor- a warns customers in its manual not to t the antenna touch their bodies while ey're talking. (Cordless home phones en't under suspicion, because their sig- als are 100 times lower-powered than ose of cellular phones.)

Cleary at the Medical College of Vir- inia puts it bluntly: He says he won't se a cellular phone until more studies are done. "Every law of physics tells you that if you're close to the source, you're going to be absorbing more," he says. Ronald C. Petersen, manager of environmental health and safety at AT&T Bell Laboratories, helped to revise industry standards for safe levels of exposure to radio waves from cellular phones in 1991. He says studies such as Cleary's deserve further investigation but are not yet sufficient to justify changing the exposure rules.

In the meantime, the cellular-phone business is doing damage control. Executives of Motorola, the largest maker of cellular phones and transmission equipment, on Jan. 25 held a conference call for scores of reporters and analysts. Motorola says it has been researching the health implications of radio fields for more than 20 years. "None of this scientific inquiry has demonstrated the existence of health risks from the use of cellular phones," says Edward F. Staiano, president of Motorola's general systems group, which includes cellular operations. "If we had any concern that they caused a health problem, we would stop selling them immediately." But the company provided details on only one study of cellular frequencies and health, which it is sponsoring and which is not yet complete.

The casual users the industry is now trying to attract could be frightened off

Figuring out how to quell consumer fears may be critical as the industry tries to move beyond its current base of hard-core cellular users. The new target: casual customers, such as the elderly couple who want a car phone in case of a breakdown or college students who view cellular phones as the latest fashion accessory. These are the very people who could be most easily scared away by a potential health risk. In addition to missing out on new recruits, network operators could lose revenue if existing cellular-phone owners begin to worry and limit their calling.

TOO MANY EXPERTS. So a cloud has now formed over cellular. Analyst John L. Bauer III of Prudential Securities Inc. says he hopes the concern is "a media-related blip." But, he adds: "What's confusing is there do seem to be experts on both sides."

Herschel Shosteck, who runs a cellular-industry consulting firm bearing his name in Silver Spring, Md., sums up the issue as just the latest media-fed scare: It will garner a lot of attention for a few weeks or maybe months and then it will all blow over. Chellgren of Nokia notes that when concern was raised by microwave ovens in the early 1980s, that prompted a similar media frenzy. "Certainly we don't hear about that today too much," he says. As the cellular industry gears up for the promised wireless future, it can only hope that this health scare passes from memory just as easily.

By Bart Ziegler, with Peter Coy in New York and bureau reports

Developments to Watch

EDITED BY OTIS PORT

EMPOWERING ALGAE—TO MAKE ELECTRICITY, THAT IS

Maybe next we'll grow our own electricity. Paul Jenkins, an engineering professor at the University of the West in Bristol, England, already does. He harvests kilowatts of power from lowly algae.

His gadget, called Biocoil, produces bumper crops of algae by suspending the organisms in a nutrient broth and circulating it through a clear plastic tube warmed by sunlight. Some algae are continuously siphoned off, filtered, dried, then chopped into fine particles. These are pressurized and injected into a diesel engine, providing 85% of its fuel as it drives an electrical generator. The carbon dioxide produced by the engine is recycled back to the Biocoil to feed the algae. Jenkins says the system should generate power as cheap as that from new coal-fired plants. Biocoil's maker, London-based Biotechna, heads a consortium that plans to finance a 600-kw pilot plant.

A ONE-LANGUAGE-FITS-ALL APPROACH TO PARALLEL PROCESSING

Computers stuffed with dozens of microprocessors can outperform the fastest "super" from Cray Research Inc. That's because all those chips simultaneously pick away at pieces of the job. But to wring these speeds from a parallel computer, programs usually need to be rewritten to meticulously control the flow of data to and from each chip. That's a formidable task, so not many rewrites have been tried.

Researchers at the European Computer-Industry Research Center (ECRC) in Munich believe they've found a way around this software bottleneck, using something borrowed and something new. First is a programming language that doesn't require instructions to be doled out in rigid sequence, as Fortran and most others do. With so-called logic programming, "you can shuffle [instructions] like a pack of cards," says Michael W. Freeston, head of technology transfer at ECRC.

That removes the need to tightly control the data going to the microprocessors. But there's still the problem of keeping track of the piecemeal results coming back. For that, ECRC has developed a special data base featuring "data persistence." It keeps tabs on the pieces until the final answer can be assembled. London's International Computers Ltd. is already using the technology to help manage Hong Kong's busy port.

FUTURE U.S. CHIPS THAT COULD CRUNCH THE JAPANESE

Almost from day one in the semiconductor industry, memory chips have been the so-called technology drivers. Cutting-edge production techniques were developed first to etch smaller transistors for memories and then spilled over into other types of chips. That's why the Japanese became chip-making champs after they dumped dynamic random-access memories on the U.S. market in the early 1980s and fo most American producers of DRAMs to throw in the towe

Japan's reign may be coming to an end, however. In sci nizing the gap between when leading-edge technology sh up in DRAMs and then in microprocessors, market researc Dataquest Inc. finds a slow but steady decrease. Given Jan. 19 news that Advanced Micro Devices Inc. and Hew Packard Co. have teamed up to develop next-generation mi processors, plus what Intel Corp. is spending on chipmak technology, Dataquest says these U.S. "brain" chips for c puters could overtake Japan's DRAMs in technical sophist tion as early as 1995. It predicts circuit-line widths by the 0.35 micron in microprocessors, vs. 0.4 micron for DRAMs.

PREDICTIONS OF ARCTIC WARMING MAY COOL OFF A BIT

Scientific models predict that global warming will o first and worst at the poles. But testing that theory been tough, since good data on temperatures in the Ar have been hard to come by. Now, thanks to the end of the war, scientists have examined U.S. and Russian meas ments taken from 1950 to 1990. Their findings, published in Jan. 28 *Nature*, are a surprise. Says Jonathan D. Kah climatologist at the University of Wisconsin: "The predic widespread warming in the Arctic is not observed."

By no means is the debate over, though. For one thing, K points out that 40 years may be too short to spot a warm trend. And John E. Walsh, a University of Illinois climat gist, adds that Russia's drifting ice stations, from which m balloon-borne instruments were released, may not have b in the best places to detect warming. Still, the new study d strongly suggest that the computer models don't yet do jus to the Arctic's complicated climate. "My guess is that th probably is some warming caused by greenhouse gases, bu may be balanced by other factors, such as changes in cl cover," says Kahl. "It's very confusing."

HUSHING THE WHOOSHING OF WIND AROUND A CAR

Atlanta revelers heading home in the dead of night may spot a weird sight on the local freeways: a white Mercury Sable sprouting a wind vane, wind-velocity meter, bicycle tire, and 41 microphones. It's an experiment by Krishan K. Ahuja, an acoustics expert at Georgia Institute of Technology. Ahuja is helping Ford Motor Co. prepare itself for the market that's expected to develop for electric cars

Without a gasoline engine's roar to drown out wind no Ahuja explains, drivers are going to be far more touchy ab the whooshes and whistles of air rushing around their c Since this hasn't been a major issue while gas-guzzlers ru the earth, nobody has developed a model that can predict w noise. To correct that, Ahuja and his assistants collected acc tical data from 25,000 miles of driving in the quiet wee hou and the analyses are now starting to spill out of the compu Ford is keeping silent about the findings so far.

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THE VIRTUA

CHARACTERISTICS OF A NEW CORPORATE MODEL

Today's joint ventures and strategic alliances may be an early glimpse of the business organization of the future: The Virtual Corporation. It's a temporary network of companies that come together quickly to exploit fast-changing opportunities. In a Virtual Corporation, companies can share costs, skills, and access to global markets, with each partner contributing what it's best at. Here are the key attributes of such an organization:

EXCELLENCE

Because each partner brings its "core competence" to the effort, it may be possible to create a "best-of-everything" organization. Every function and process could be world-class—something that no single company could achieve

TECHNOLOGY

Informational networks will help far-flung companies and entrepreneurs link up and work together from start to finish. The partnerships will be based on electronic contracts to keep the lawyers away and speed the linkups

OPPORTUNISM

Partnerships will be less permanent, less formal, and more opportunistic. Companies will band together to meet a specific market opportunity and, more often than not, fall apart once the need evaporates

CORPORATION

THE COMPANY OF THE FUTURE WILL BE THE ULTIMATE IN ADAPTABILITY

You know the problems. They're the stuff of Management 101. If you run a big, complex company, you battle every day to get things done faster. If you're at the top of a small one, you often struggle to find the resources to make a difference.

In today's world of fast-moving global markets and fierce competition, the windows of opportunity are often frustratingly brief. Few companies boast the in-house expertise to quickly launch diverse and complex products in different markets.

Ever hear of the virtual corporation? Before you roll your eyes, think again. In the view of many leading business thinkers, what sounds like just another bit of management-consultant cyberspeak could well be the model for the American business organization in the years ahead.

The virtual corporation is a temporary network of independent companies—suppliers, customers, even erstwhile rivals—linked by information technology to share skills, costs, and access to one another's markets. It will have neither central office nor organization chart. It will have no hierarchy, no vertical integration.

Instead, proponents say this new, evolving corporate model will be fluid and flexible—a group of collaborators that quickly unite to exploit a specific opportunity. Once the opportunity is met, the venture will, more often than not, disband. "It's not just a good idea," says Gerald Ross, co-founder of Change Lab International, a consulting firm in Greenwich, Conn. "It's inevitable."

TIME STRETCHER. In the concept's purest form, each company that links up with others to create a virtual corporation will be stripped to its essence. It will contribute only what it regards as its "core competencies," the buzz phrase for the key capabilities of a company. It will mix and match what it does best with the best of other companies and entrepreneurs.

A manufacturer will manu-

UST

se relationships make compa-
s far more reliant on each other
d require far more trust than
ver before. They'll share a sense
f "co-destiny," meaning that the
fate of each partner is dependent
on the other

NO BORDERS

This new corporate model rede-
fines the traditional boundaries of
he company. More cooperation
nong competitors, suppliers,
d customers makes it harder
determine where one compa-
ends and another begins

facture, while relying on a product-design outfit to decide what to make and on a marketing company to sell it. "Most companies put undue emphasis on owning, managing, and controlling every activity," says Richard C. Marcus, the former chief executive of retailer Neiman Marcus, who is now a partner in a consulting firm that models itself along virtual-corporation lines. "If something was worth doing, you did it yourself. But there's just not enough time in the day to manage everything anymore."

For proof that many companies are starting to feel the same way, look to the growing number of strategic alliances. American Telephone & Telegraph Co. used Japan's Marubeni Trading Co. to link up with Matsushita Electric Industrial Co. to jump-start the production of its Safari notebook computer, designed by Henry Dreyfuss Associates. MCI Communications Corp. uses partnerships with as many as 100 companies to win major contracts with large customers. IBM, Apple Computer, and Motorola are using an interfirm alliance to develop an operating system and microprocessor for a new generation of computers.

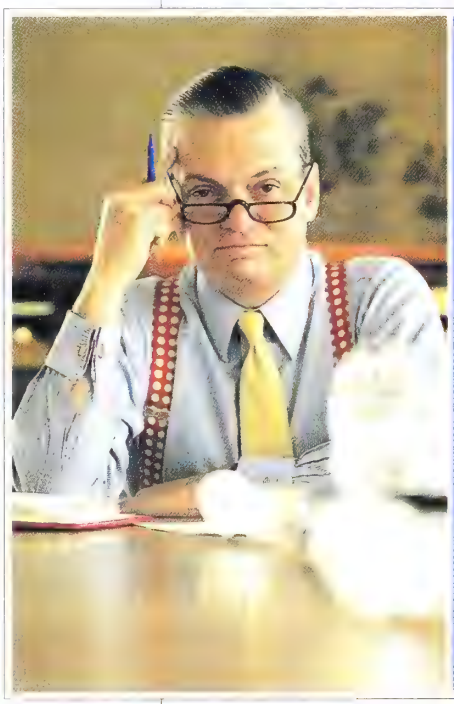
EARLY GLIMPSE. Partnering—the key attribute of the virtual corporation—will assume even greater importance, says James R. Houghton, chairman of Corning Inc. Corning may be the most successful U. S. company at putting together alliances. Its 19 partnerships, accounting for nearly 13% of earnings last year, have let the company develop and sell new products faster, providing size and power without the bulk. "More companies are waking up to the fact that alliances are critical to the future," Houghton says. "Technologies are changing so fast that nobody can do it all alone anymore."

But today's joint ventures are little more than an early glimpse of the highly adaptable, opportunistic structure of the future. "When we talk about virtual corporations today, we're mainly talking about alliances and outsourcing agreements," says John Sculley, chairman of Apple Computer Inc. "Ten or 20 years from now, you'll see an explosion of entrepreneurial industries and companies that will essentially form the real virtual corporations. Tens of thousands of virtual organizations may come out of this."

The virtual corporation may now exist mainly in the imaginations of a few business thinkers and theorists (page 103), but similar structures have long characterized several industries. In businesses as diverse as movie making and construction, companies have come together for years for specific projects, only to dissolve once the task is done. The leveraged-buyout firm of Kohlberg Kravis Roberts & Co. forms virtual-style combinations when it assembles lawyers, accountants, and investment bankers to do a specific deal.

What's different now is that large corporations have begun using elements of the virtual concept to gain access to new markets or technologies. Apple Computer's long-standing strategy of partnering is a key reason the company's revenues per employee, at $437,100, are nearly four times those of competitor Digital Equipment Corp. and more than twice those of IBM. Lacking the capacity to produce its entire line of PowerBook notebooks, for example, Apple turned to Sony Corp. in 1991 to manufacture the least-expensive version. It was an obvious pairing, melding Apple's easy-to-use software with Sony's manufacturing skills in miniaturization. A year later, after selling more than 100,000 Sony-made models, Apple ended its agreement.

The linkage served its purpose: to get an entry-level product out swiftly. Similarly, a small company, TelePad Corp. of Reston, Va., is using collaborations with more than two dozen partners and suppliers to bring its new pen-based computer to market.



'More companies are waking up to the fact that alliances are critical to the future'

JAMES R. HOUGHTON
CHAIRMAN, CORNING

If it becomes widespread, the virtual model could become the most important organizational innovation since the 1920s. That was when Pierre S. Du Pont and Alfred P. Sloan developed the principle of decentralization to organize giant, complex corporations. Even the spate of corporate downsizings in the past decade has failed to break the vertical chain of command typical in most large companies. Massive layoffs of middle managers have led to fewer layers of management but have left essentially the same organizational structures.

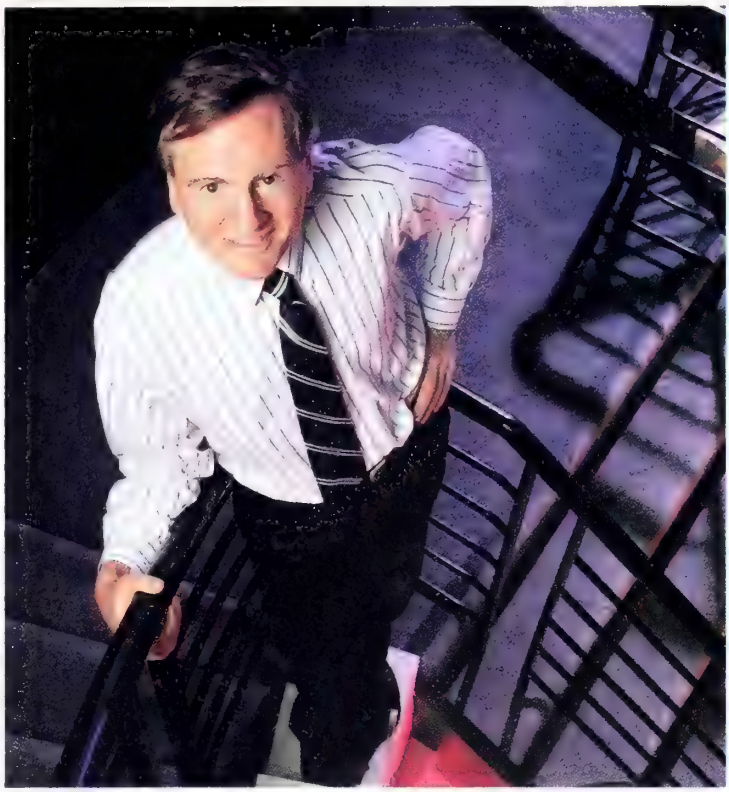
SUPERHIGHWAY. Already, though, joint ventures and strategic alliances are blurring the traditional hierarchies and boundaries that characterize this largely obsolete model. Customers are helping to create and develop new products and services. Competitors are embracing one another to enter new markets or make products they can't produce on their own. "It's a way to gain scale without mass," says David Nadler, founder of New York-based Delta Consulting Group Inc. Ultimately, these greater levels of cooperation among competitors, suppliers, and customers may create so much overlap that it will be tough to determine where any one company ends and another begins.

Technology will play a central role in the development of the virtual corporation. Roger N. Nagel, operations director for Lehigh University's Iacocca Institute, envisions a world in which technology could make the creation of virtual enterprises "as straightforward as connecting components for a home audio and video system by different manufacturers." He foresees a national information infrastructure linking computers and machine tools across the U.S. This communications superhighway would permit far-flung units of different companies to quickly locate suppliers, designers, and manufacturers through an information clearinghouse. Once connected, they would sign "electronic contracts" to speed linkups without leaving headaches.

Teams of people in different companies would routinely work together, concurrently rather than sequentially, in computer networks in real time. Artificial-intelligence systems and sensing devices would connect engineers directly to

production line. "Such
nfederations can be the
nerican answer to the
panese *keiretsu*, but a
re powerful and flexible
sion," believes Nagel.
f power and flexibility
the obvious benefits of
virtual corporation, the
del has some real risks,
. For starters, a compa-
joining such a network
es control of the func-
ns it cedes to its part-
s—who may drop the
l. Proprietary informa-
n or technology may es-
pe. And the structure
l pose stiff new chal-
ges for managers, who
ust learn to build trust
h outsiders and manage
yond their own walls.
Still others are wary of
concept because it con-
es up the idea of the
llow corporation, the
m coined to describe
npanies that have bol-
red profits by abandon-
manufacturing and outsourcing pro-
ction to plants in low-wage countries.
ch of the thinking about the virtual
poration, however, comes from ex-
rts at the Iacocca Institute who have
amined the decline of U. S. manufac-
ring. They believe the idea—coupled
th computer-aided design and flexible
nufacturing—could keep jobs in the
S. In their view, rapidly formed virtu-
corporations composed of the best of
erything will have the competitive ad-
ntage.

OBUST.' A growing number of compa-
chiefs agree. One is James C. Mor-
n, chief executive of Applied Materials
., which makes the equipment to man-
acture semiconductors. Applied's suc-
ss is based on a collaborative web of
ppliers and customers. Each partner
ecializes in doing part of a system
ry well, so Applied doesn't have to do
erything well. "It's easier to manage a
gger business if others are managing
ces for you," explains Morgan.
Many large corporations are using the
tual concept to broaden their offer-
gs to customers or produce sophisticat-
products less expensively. MCI, the
g-distance telephone company, has al-
d itself with an array of partners to
fer customers "one-stop shopping" for
their communications needs, includ-
g helping customers finance their
uipment purchases. "Our partnerships
ake us a more efficient competitor
ith a more robust set of product offer-
gs," says Daniel F. Akerson, MCI's
esident.
A central part of MCI's strategy is to



'Ten or 20 years from now, you'll see an explosion of entrepreneurial industries and companies'

JOHN SCULLEY
CHAIRMAN, APPLE

match its core competencies in network integration and software development with the strengths of other companies making telecommunications equipment. The upshot: MCI doesn't have to spend its own capital to fund research and development for hardware, leaving more resources for what it does best. MCI's alliances allow it to offer customers a package of hardware and services based on the talents, skills, and resources of as many as 100 other companies. "If we had to do it on our own, it would cost us at least $300 million to $500 million a year in extra expenses," says Akerson.

The virtual concept is also providing muscle and reach for some smaller companies and entrepreneurs. Among its most vocal advocates is Ron Oklewicz, a veteran of Xerox Corp. and Apple Computer who had an idea for a handheld, pen-based computer. Two years ago, he launched TelePad, which has limited in-house design talent, a handful of engineers, and no manufacturing plants. The computer was designed and co-developed with GVO Inc., a prominent industrial-design company in Palo Alto, Calif. An Intel Corp. swat team was brought in to work out some engineering kinks.

Several other companies have developed software for the product. A battery maker is collaborating with TelePad to develop the portable power supply. And to manufacture the computer, the company is using spare capacity at an IBM plant in Charlotte, N. C. The paychecks for its 14 employees are issued by an outside firm, Automatic Data Processing Inc. For his part, Oklewicz brings his experience in selling computers to the government, a key potential customer of the product.

His virtual organization avoids what Oklewicz calls the "vertical rat hole"—the inefficiencies and costs of vertical integration—and seizes

'I think it's a business buzz phrase that's meaningless. It's appetizing, but you get nothing out of it'

ANDREW GROVE
CHAIRMAN, INTEL

TOP TO BOTTOM: PHOTOGRAPHS BY JAMIE TARABAY; ROBERT HOWARD

advantage of the best efforts of world-class partners to bring his product to market faster. Through more than two dozen collaborations, Oklewicz figures he is leveraging his puny work force into more than a thousand highly trained staffers in design, engineering, manufacturing, and distribution. That Intel engineering team, for example, took only one week to solve problems Oklewicz believes his company would have spent as long as five months on. "We couldn't hire this kind of talent," he says. "The hiring alone would have killed us."

Of course, since TelePad is dependent on so many partners, it has ceded direct control of nearly all its operations. Does that bother the founder? Not at all. "I can go to sleep at night confident that IBM knows how to make this product, rather than worrying whether I made the right capital investments or hired the right people," he says.

The idea has broad implications for service businesses, too. Consider InterSolve Group Inc., a Dallas-based management-consulting firm that consists largely of four partners. For any given assignment, InterSolve assembles "just-in-time" talent to solve problems or implement strategies for clients that range from IBM to First Interstate Bancorp. Once a job is complete, the consulting team disbands. "One of the founding principles of our firm is that we would assemble and disassemble teams for work," says Edward R. McPherson. "We can bring the right talent to fit the assignment as opposed to using talent already in inventory. We don't have to warehouse staff or specialists."

InterSolve's recently completed assignment for First Interstate, for example, saw the creation of four teams of 26 experts led by McPherson, who had met only one of the team members before the assignment. The group squeezed nearly $14 million in annual savings out of First Interstate's back-room operations. "The advantage is you get specialists to work on your problems," says Hayden B. Watson, a senior vice-president at First Interstate. "As long as you keep their activities coordinated, you're going to get a lot more result for the money you spend."

One of the big drawbacks to the virtual corporation is that it spells the loss of control over some operations. A partnership among Intel and Japanese companies NMB Semiconductor and Sharp to make products called flash memory chips shows the potential hazards. Worried that it couldn't make the sizable investments to retain its lead in this important and growing market, Intel signed up the two Japanese companies to make flash chips for it. But NMB Semiconductor Co. had trouble getting its line up and running last year just as the market was taking off.

As a result, Intel couldn't get all the chips it could sell, and its share of the market dropped nearly 20 points in one year. Although he still believes in collaboration, Intel Chairman Andrew S. Grove is no fan of the virtual corporation. "I think it's a business buzz phrase that's meaningless," he says. "It's appetizing, but you get nothing out of it."

Critics also point to IBM's experience in creating its first personal computer in 1981. To get into the market quickly, the computer giant relied on a pair of outsiders for the key technologies: Intel for microprocessors and Microsoft Corp. for the operating software. At first, IBM won widespread praise for its unprecedented decision to develop a major product by forming partnerships with others outside its corporate walls. But the approach also meant that IBM's system wasn't proprietary, and IBM soon found that it had created a market it could not control. Hundreds of clone makers emerged with lower prices and better products.

The more entangled companies become, the more chances there will be for them to stumble. Besides the technological hurdles of information highways and networks of partners that will make the virtual corporation a reality, the concept poses new challenges for management. Before companies can more routinely engage in collaboration, they must build a high level of trust in each other.

The current clutch of strategic alliances and joint ventures could help here too, since they give companies a track record of cooperation. "People who think they can screw each other because we're going to terminate six months later are missing the point, because what we're building is a web of trust and shared understandings," says John Seely Brown. Brown heads Xerox' Palo Alto Research Center, which recently developed new products jointly with Sun Microsystems Inc.

WIN-WIN DEALS. The virtual corporation will demand a different set of skills from all managers, proficiencies not unlike those that distinguish the best venture capitalists. They'll have to build relationships, negotiate "win-win" deals, find the right partners with compatible goals and values, and provide the temporary organization with the right balance of freedom and control. That won't be easy. "All of us are comfortable operating in a known environment," says John Vaughan, a divisional vice-president at MA Com, an electronic-components maker based in Burlington, Mass., which is joining with AT&T and others to create new products. "All the politics are local, and all the management is personal. But this new model means you have to be more open in dealing with outsiders. To some people, that sounds like fun. To others, it will be hell."

So common will collaborative work become that some gurus are already advocating the creation of a new corporate position. Chiphigh's Nagel suggests that companies appoint a "vice-president for external interactions" who would oversee the dozens or hundreds of linkups that he believes will exemplify the organization of tomorrow. Among other things, this corporate officer would monitor the outflow of technology to make sure that the company doesn't inadvertently lose its capability to compete.

A vice-president of virtuality? That would certainly be an irony—corporations may respond to this idea, so antithetical to structure and hierarchy, by creating a new slot for it in their hierarchical structures.

By John A. Byrne in New York, with Richard Brandt in San Francisco, Gail Dutton in New York, and bureau reports

A HANDBOOK FOR VIRTUAL MANAGERS

Today's alliances have taught managers a few key lessons that should help when the virtual corporation emerges:

MARRY WELL Choose the right partners for the right reasons—because they are dependable, can be trusted, and offer the best products or services

PLAY FAIR Every link must offer a win-win opportunity for everyone, even if the outcome isn't always successful. Partnerships must serve the interests of all parties

OFFER THE BEST AND BRIGHTEST Put your best people into these relationships. It's the easiest way to tell your partners your link with them is important

DEFINE OBJECTIVES When you ask the question, "what's in it for me?" you should have a quick and ready answer. Know what you and your partners will be getting out of the virtual enterprise

BUILD A COMMON INFRASTRUCTURE Until networks and standards let corporations talk to each other across the street or across the ocean, information systems must at least communicate with current and potential partners

DATA: BOOZ ALLEN & HAMILTON INC.

THE FUTURISTS WHO FATHERED THE IDEAS

ike victory, every good idea boasts many fa- thers. So it is with the rtual corporation. These ys, a whole cadre of man- ement thinkers lays claim the term, and to each of em it means something ghtly different.

To Jan Hopland, a Digital uipment Corp. executive o probably coined the rase, it describes an enter- ise that can marshal more sources than it currently s on its own, using collabo- tions both inside and outside its undaries.

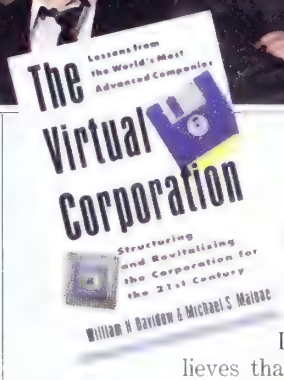
To Roger N. Nagel, a management iru who has crisscrossed the country ving about 50 presentations on the a in the past 12 months, it largely eans using technology to execute a de array of temporary alliances with hers in order to grasp specific mar- t opportunities.

To William H. Davidow and Michael Malone, authors of *The Virtual orporation*, the phrase is a catchall at encompasses a slew of manage- ent buzzwords and ideas from em- werment to just-in-time inventory chniques. Indeed, the pair have so oadened the term "virtual" that it rtually means "virtuous."

OSTLES. Whatever the precise defini- n, all these business futurists, and veral others, agree on one thing: The rtual corporation is the management odel of tomorrow. With siness becoming more obal and more complex ery day, many more part- rships are likely to nerge among companies d entrepreneurs.

In their collective view, day's joint ventures, stra- gic alliances, and out- urcing represent only the rst trickle of what will be- me a torrent of spontane- s partnerships. These will aided by high-speed com- unications networks, com- on standards for swap- ng design drawings and her work-in-progress, and informa- onal data bases that will make it easi- for companies to locate partners.

The virtual corporation's apostles e hardly shy about assessing the im- rt of their notion. Nagel, operations rector of Lehigh University's Iacocca Institute, believes that a company's desirability as a partner "will be a strategic requirement to remaining competitive." Davidow, a Silicon Valley venture capitalist, maintains that the U. S. "will be a post-industrial version of a developing country" if it fails to be a leader in forming virtual corporations by the year 2015.



MALONE AND DAVIDOW: IF COMPANIES FAIL TO ADAPT, THE U. S. IS DOOMED

Why virtual? The term has its origins in the computer industry—but not, as you might think, in the phrase "virtual reality." Instead, it derives from the early days of computing when the term "virtual memory" described a way of making a computer act as if it had more storage capacity than it really possessed. The virtual corporation will seem to be a single entity with vast capabilities but will really be the result of numerous collaborations assembled only when they're needed.

LEHIGH'S NAGEL

Hopland, who plots strategy for DEC's information-technology business, began using the term "virtual enterprise" about five years ago when he was a member of a B-school research team exploring management changes in the 1990s. "It was clear we were entering an age in which organizations would spring up overnight and would have to form and reform relationships to survive," says Hopland. " 'Virtual' had the technology metaphor. It was real, and it wasn't quite real."

Managers eager to learn about what's virtual and what isn't are unlikely to get much help from Davidow and Malone's book, published last October. The pair use the term so broadly that their book reads like an overview of management trends—everything from customer focus to total quality management. No matter: Malone says he now fields calls from company chiefs who are so enthusiastic about the book that they want to transform their own organizations into virtual corporations.

STEREOTYPES. That will be easier said than done. Despite all the talk of how technology will facilitate the virtual corporation, there are some old-fashioned obstacles to overcome. For starters, changes in antitrust policy and intellectual-property laws may be necessary to spur cooperation among companies.

DEC'S HOPLAND

Those recommendations are among a series that emerged from a 1991 study by a task force at Lehigh co-chaired by Nagel and Richard K. Dove, an Oakland (Calif.) consultant. A former executive at International Harvester Co. and an expert in manufacturing systems, Nagel also maintains that executives will have to fight against a couple of "pernicious stereotypes."

The first of these is the tendency of managers to devalue work performed by outsiders. The second is the all-American notion that doing something alone is superior to doing it as part of a group. "Companies have to understand the value of sharing resources to make the idea work," says Nagel. For their part, Nagel and his fellow thinkers are generally happy to credit one another for their respective contributions. So here's one example, at least, of management gurus practicing what they preach.

By John A. Byrne in New York

LACK OF CHILD CARE IN DENVER CAUSED WILHELMI TO RELOCATE TO MONTANA —AND BECOME A FULL-TIME MOM FOR HER TWINS

CHILD CARE

WHAT PRICE CHILD CARE?

Ideas abound on reforming it. But money is another matter

When S. C. Johnson & Son decided in 1985 that it needed to offer employee child care to attract and retain top talent to its bucolic Racine (Wis.) headquarters, it didn't scrimp. Today, 400 children from newborn to age 12 use Johnson Wax's state-of-the-art child-care center in a company-owned park with boating lake and Olympic-size swimming pool. Not only is care offered before and after school for older kids, there's even day camp during school vacations. The cost for day care—$90 to $115 a week—is less for employees making under $60,000 annually. "This isn't a benefit—it's a good business decision because we want to attract the best," says JoAnne Brandes, an attorney and a founder of the program. "I only wish they had this when my child was born."

If only every parent today had that kind of safety net. But for most working parents, child care these days doesn't work. Costs vary wildly among regions. Quality is spotty and often not policed. And, unlike most Western nations, the U. S. provides only minimal child-care assistance to all but the poorest families.

Actually, this should come as no surprise. America simply never planned for the dramatic march of women into the work force during the 1980s. Fully 55% of women with young kids work today, double the level of 1973. Yet the nation still clings to the old every-woman-for-herself method of securing child care that depended heavily on nearby relatives to baby-sit junior.

Zoë Baird's failed nomination as U. S. Attorney General thrust the child-care debate into the spotlight. She knowingly employed an illegal alien to care for her child—a situation thousands of other families share as well. But that choice is forcing most working parents, employers, and even governments to grapple with a vexing challenge: rethinking how America cares for its young—and who will pay for that care.

That won't be easy, but society has little choice. Employees are being forced to look beyond salaries and place a value on family benefits such as flexible hours. Employers, especially those that depend on a female work force, must cope with the costly absenteeism and high t over spawned by inadequate child c And government is confronted wit increasingly vocal middle class that a big chunk of the good life leave e month in child-care payments.

There's certainly no shortage of posals. They range from a sharply creased child-care tax credit to ever quiring child care by employers (ta But there is a shortage of the one t that makes such care more access money. The federal government, w spends upwards of $1.5 billion annu on child-care programs, is deep in d The states, which share in the cost administer many low-income progra are also strapped. Even healthy b nesses are loath to offer what can come an ever more-costly benefit.

MAJOR EXPENSE. Ironically, availab isn't the major problem nationwide many regions, there's actually a su of child-care slots—a reason big ch such as Kinder Care Learning Cen Inc. and La Petite Academy Inc. been weak performers in recent ye "Child-care centers all over the na are 70% full, so there's plenty of ca ity," says Jack L. Brozman, preside Kansas City-based La Petite Acade the nation's second-largest child- chain. "The real issue is affordabilit

Still, shortages do exist in metro tan areas such as New York and Francisco, where high land costs m centers too expensive to build. Also cal health-and-safety ordinances o make child care even more costly. M ers of infants—whose care is more

ısive—complain loudest of difficulty ling help. Last summer, Cheryl Wilmi left her job as director of a Den- art school to live as a full-time mom ı former stagecoach stop near Round- Mont., partly because she couldn't l the right person to care for her n infant daughters in her home. She l read many stories about child abuse l was wary of day-care centers that ren't employer-sponsored. "I could not myself loading those two babies in- infant seats every day and leaving m at day care," says Wilhelmi.

lthough there was finan- l sacrifice in her career nge, Wilhelmi's artist hus- ıd does hold a job. But st working women, espe- lly single parents, don't ve a choice to stay at ne when child-care options n't to their liking. Half of : women who return to lfare do so because of ld-care problems. And af- dability is not just the or's problem: Robin ans, director of the Un- Theological Seminary y Care Center in Manhat- ı, says her center averag- a $1,000-a-month fee for l-time infant care, which en eats up 75% of the e-home pay of the second ouse in two-income fami- s. That leads to desperate asures. "Some use their dent loans to pay for child e," says Means.

ING TOTS. The care Amer- ns expect is often more ın they can afford. Work- ; women in the U. S. rou- ely pay 25% of their take- ne pay for child care. And en the grandmom next or—if she's willing to risk ting her Social Security youts by reporting baby- ting income—can charge 25 a week.

More women are turning their employers for solu- ns. Last fall, a consortium of 137 com- nies and nonprofits formed the Amer- n Business Collaboration for Quality ependent Care (BW—Sept. 28). Its al: to raise $25 million to fund child- d elder-care projects. And Johnson ax isn't the only stellar success. Corn- g Inc. started funding a day-care cen- in 1979 and today handles 120 kids in o day-care programs as well as 160 ls in after-school programs daily.

But companies don't have to go that to make a difference. Morrison & erster, a San Francisco law firm with fices nationwide, found that on-site centers just wouldn't work. Some parents just didn't want to commute with kids. But they were generally worried about having emergency care. So the firm subsidizes child-care costs during child illness or sudden business trips.

Even the most ardent advocates of increased child care know that business can't carry the load alone. Millions of parents work at companies that are either too small or too poor to provide services. That's left many parents anxiously looking toward a cash-strapped Washington for help.

"GOOD BUSINESS": JOHNSON WAX CHILD-CARE CENTER IN RACINE

HOW TO FIX CHILD CARE

EMPLOYERS Provide broader tax incentives to encourage companies to offer child-care subsidies to employees or to neighborhood centers, which give employees preference

Help employers offer flexible spending accounts, which allow employees to pay child-care expenses with pretax dollars by simplifying the paperwork

REAL ESTATE Offer tax incentives to developers to provide child-care facilities in new office buildings

Loosen zoning ordinances to permit more home-based child care in neighborhoods

IMMIGRATION Make it easier for immigrants to work as child-care providers by issuing special visas

Help aliens get green cards by reclassifying child-care workers as "skilled" workers, who have priority under the law

DATA: BUSINESS WEEK

Still, there are things the feds can do at relatively modest expense. Child-care advocates say more federal funds could be targeted for junior college programs that train infant-care workers, perhaps enrolling welfare mothers in those programs. That would not only alleviate the most pressing need but also help other women leave the public dole. Cities, too, could step in. Baltimore lets private operators pay nominal rents for public school buildings to run day-care centers. The program has brought more than 1,000 new child-care providers into its licensing system.

But such piecemeal measures—generally aimed at the poor—aren't good enough in the eyes of the middle class. "It would be unheard of anywhere in Europe to expect families to be solely responsible for the burden of child care," says Karen Nussbaum, executive director of 9 to 5, National Association of Working Women.

EUROPE LEADS. Besides granting 360 days of paid parental leave after the birth of a child, Sweden offers subsidized day-care at municipally run centers. Federal and local governments split 90% of the costs, with parents paying 10%. As a result, 85% of Swedish women work outside the home.

France goes even further, providing free, universal care for children above the age of three, and it heavily subsidizes care for younger kids. But such comprehensive welfare programs mean that France spends roughly $200 billion on child care and on extensive welfare programs for families, double what the U. S. pays for similar benefits, figures American University economist Barbara R. Bergmann. France does have twice the toddlers per teacher vs. a typical American center. But "France is a less affluent country, and they do it," says Bergmann. "It's not a question of having adequate resources, it's a matter of allocation of resources."

That seems to be the nut of the problem. The nation is far from a consensus on whether providing care should be a governmental responsibility. "If an employer and its unions negotiate child-care benefits, that's fine," says Murray Weidenbaum, former chairman of President Ronald Reagan's Council of Economic Advisers. "But why get the government involved and have working women without children subsidize those that have them?"

That's really a political question—and a potential middle-class bombshell. But don't look for Washington to answer it anytime soon. Congress revamped federal day-care funding just two years ago. And with President Clinton focused on the deficit, child-care reform isn't even on the back burner. Unless lawmakers pass a more cohesive program, it's up to business to fill the vacuum. Until companies—and the government—devise better choices, the real casualties from the child-care mess won't be superstars such as Zoë Baird, but everyday working families and their children.

By James E. Ellis in Chicago, with Judy Temes in Boston, Joan O'C. Hamilton in San Francisco, and bureau reports

GUESS WHAT: IBM IS LOSING OUT IN MAINFRAMES, TOO

It's playing catch-up in traditional machines and new technologies as competitors snare business

No question, 1992 was a disaster for IBM: The company's first-ever operating loss, a costly round of cutbacks resulting in the biggest net loss in American corporate history, a 50% plunge in its share price, and a hail of criticism that led IBM's directors on Jan. 26 to seek a replacement for Chairman and CEO John F. Akers (page 22).

Nearly lost in the headlines, however, was a particularly alarming revelation: IBM, it seems, has even lost its touch in mainframe processors and storage systems—a $50 billion worldwide industry that it has dominated for 25 years. While overall sales of such equipment grew by an anemic 2% in 1992, analysts figure that IBM's mainframe processor revenues dropped 10% to 15% in 1992, to about $7.5 billion. At the same time, mainframe rival Amdahl Corp. posted a 48% revenue gain and confounded Wall Street predictions of a fourth-quarter loss with a $2.45 million net profit. Unisys Corp., the No. 2 mainframer, reported that its mainframe sales jumped more than 10% over 1991.

Clearly, the mainframe is not dead. What is dead, though, is revenue growth from the old-style machines, such as IBM's current System/390. Even Amdahl and Unisys face the challenge that looms over IBM's mainframe business: a painful shift to large-scale computers based on the same kind of microprocessor technology used in personal computers and workstations. Dozens of companies, from Hewlett-Packard Co. to American Telephone & Telegraph Co., have pulled years ahead of IBM in creating machines from these inexpensive parts. These new computers can outperform the old ones in absolute power but are often priced at a tenth or less per unit of computing.

As they race to teach big corporations the new math, IBM's rivals are beginning to indulge in what James Cassell, Gartner Group Inc.'s chief mainframe analyst, calls a "feeding frenzy." Consider: Using Big Blue's mainframe processors, customers pay approximately $100,000 for each MIPS, or the capacity to execute 1 million instructions per second, a rough gauge of computing power. Hewlett-Packard's largest minicomputers, built from the company's own RISC (reduced instruction-set computing) microprocessors, cost about $12,000 per MIPS. Because of that disparity, "companies that had Big Blue stamped on their forehead are now talking to us," says Willem P. Roelandts, vice-president and general manager for HP's Computer Systems Organization.

HP's "mainframe alternative" marketing program has won some 200 orders since last May—and IBM's latest bad news is helping. Says Roelandts: "Customers are saying: 'The whole world has changed—why should I listen to just IBM?' They're looking for a second strategic supplier."

The mounting attack extends to the highest levels of IBM's mainframe line. Leading the pack is AT&T's NCR unit, which sells a "massively parallel" machine that can gang together as many as 1,000 Intel Corp. 486 chips, just like those in PCs. It outruns IBM's $20 million-plus ES/9000 processor complex on many jobs, yet sells for a maximum of $12.6 million. A mere 32-processor version has yielded, on average, a sevenfold reduction in processing times compared with an Amdahl mainframe at Shepard's, a publisher of legal citations and a unit of McGraw-Hill Inc., which publishes BUSINESS WEEK. "There's no way conventional mainframe could keep up with our growth," says Gary Richards, director of information systems and technology at Shepard's.

TELLTALE PATTERN. NCR is getting its foot in the doors of major IBM customers by showing how its machines can do things that conventional mainframes just can't—at least not quickly. William J. Eiseman, vice-president of NCR's Large-Computer Products Div., says the focus is on

DONOFRIO: LOPPING AS MUCH AS 50% OFF LIST PRICES TO MAKE MAINFRAME SALES

IBM'S MAINFRAME RIVALS, OLD AND NEW

IBM products	Established suppliers	Newcomers
LARGE-SCALE, ES/9000 PROCESSORS $1 MILLION AND UP	▶ Amdahl ▶ Fujitsu ▶ Hitachi ▶ Unisys	▶ AT&T/NCR/Teradata ▶ Kendall Square ▶ nCube ▶ Tandem
MIDRANGE, ES/9000 PROCESSORS $100,000 TO $1 MILLION	▶ DEC ▶ Sequent ▶ Unisys	▶ Hewlett-Packard ▶ IBM RS/6000 workstations and AS/400 minicomputers
3380 MAINFRAME DISK DRIVES	▶ Amdahl/Fujitsu ▶ Hitachi ▶ Storage Technology	▶ EMC ▶ Cambex

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lustries such as retailing, airlines, and nking, where managers need to search st amounts of data for telltale pat-ns. Hallmark Cards Inc., for instance, es its new NCR 3600 mainframe to n daily sales at 250 of its own outlets d those of such chains as Wal-Mart ores, Kmart, and Target Stores. here's a real sense that IBM as a com-ny hasn't given customers the tools to n their businesses in the '90s," says nry Burkhardt III, president and CEO Kendall Square Research Corp., one several startups planning to attack g Blue's commercial mainframe base. IBM's conventional technologies in ainframe disk and tape storage have o become vulnerable. Despite a $6 lion annual budget for research and velopment, IBM has begun trailing in ese key sectors—a $6.1 billion busi-ss for the company. It has yet to bring t, for instance, a disk array for its ainframes. Offered by such companies EMC Corp. and Cambex Corp., these vices get dozens of small, low-cost sk drives to do the job of a few large, l-style drives—for a third of the price. What's more, IBM's conventional drives ve suffered reliability problems, allowing Hitachi Ltd. to gain seven points of market share since 1989. Meanwhile, Storage Technology Corp. has cleaned up by selling IBM customers an automated tape library that in some jobs can replace the high-margin disk drives IBM would prefer they use.

IBM isn't sitting on its hands. On Feb. 2, it plans to unveil a parallel processor built from dozens of the same chips that power its RS/6000 engineering workstations. That machine is designed for scientific jobs and may fill the gap left by the Jan. 25 demise of Steve Chen's Supercomputer Systems Inc., a startup IBM had funded for five years. By summer, Big Blue is expected to answer the NCR challenge with a parallel data-base processor designed to attach to its mainframes. It will rely on a microchip version of the 390 design that's being developed under the code name Renoir.

'COMPANIES THAT HAD BIG BLUE STAMPED ON THEIR FOREHEAD ARE NOW TALKING TO US,' SAYS AN HP EXEC

IBM also has plans to revamp its conventional mainframes. In hopes of stimulating demand for the System/390, it's expected to announce on Feb. 9 a new price structure for the big machines. Marc Butlein, chairman of consultant Meta Group Inc., says it may be IBM's most significant pricing action since 1979, when it launched the low-priced 4300 mainframes. The new 390s will offer as much as 30% more processing power per dollar than current models.

The executive responsible for modernizing IBM's mainframe business is Nicholas Donofrio, president of the Enterprise Systems Div. He inherited it in 1992 with the retirement of Carl Conti and found himself with a product line that was trailing those of Amdahl and Hitachi. Without new models of his own—and a glut of used IBM mainframes on the market—Donofrio has been resorting to heavy discounts, sometimes lopping as much as 50% off list prices to cut deals. "Price has been their only weapon," says Gartner's Cassell. IBM declined to comment for this story.

The discounting didn't save enough deals to keep IBM's mainframe business in the plus column, however. One reason, says Cassell, is that by mid-1992, customers slowed buying in anticipation of this year's new models. Meanwhile, IBM's price-cutting quickly took a toll on profits. Gross margins on sales of mainframes and their storage systems have dropped from 65% just a few years ago to under 60%, helping to push the corporate gross-margin rate down to 42%.

Now, Donofrio is leading the first serious cost-cutting in IBM's mainframe development and manufacturing. Early this year, Big Blue disclosed plans to cut jobs at its East Fishkill (N.Y.) and Endicott (N.Y.) plants. Both have been heavily involved in producing thermal-conduction modules (TCM), an elaborate and costly type of microchip package that requires water-cooling. For years, competitors such as Amdahl and Hitachi have built cheaper air-cooled mainframes using different packaging techniques. Evidently, IBM is now moving away from water-cooling and by 1996 may convert entirely to air-cooled machines built around Renoir and its successors.

CASH COW? Some IBM critics are calling for a far more aggressive change in IBM's large-systems unit. Charles H. Ferguson and Charles R. Morris, co-authors of a new book, *Computer Wars*, advise IBM to treat its mainframe business as a "cash cow." Their open letter to IBM directors advises: "Put all your traditional data center businesses by themselves. Make the managers responsible for milking profits from a dying business."

Some variation on that theme will likely turn out to be IBM's future tack, especially if the new CEO it hires is less enamored of mainframes than Akers and Jack D. Kuehler, his chief technologist, seem to have been. But even as the market for traditional mainframes begins to shrink, reports of the large-scale computer's death are premature. "The level of rhetoric has gotten absurd," says Amdahl President and Chief Operating Officer E. Joseph Zemke. Large companies will always have a need for big computers, in one form or another. It's just that in the future, when shopping for such machines, IBM may not be the first brand that comes to mind.

By John W. Verity in New York with bureau reports

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URIOUSER AND URIOUSER AT AMEX

e newly drawn lines of power seem to be at cross-purposes

t's bizarre," says Dean Witter Reynolds Inc. analyst Michael A. Lewis. "It's peculiar," says Har- l business school professor Jay sch. "It's sad," says a shareholder. hat's not the reaction American Ex- s Co. hoped for when it named the l giant's new boss. After months of aging uncertainty and a failed coup, AmEx board kept James D. Robin- III, 57, as chairman. His protégé, Ex President Harvey Golub, 53, was ed chief executive.

hat raises questions about re the power lies. Both will re a renamed Office of the f Executive. And Robinson become chairman CEO of AmEx' arson Lehman thers Inc. So he'll rt to Golub as , while Golub re- ts to the board— r which Robinson presides.

Nobody knows is running the w," says Dean ter's Lewis. "Is ub? Is he still ac- ntable to Robin- ? Who is the rd's allegiance " Adds Harvard's sch, an expert on porate boards: "I don't to see an ex-CEO become irman, because it makes it d for Golub. You are living in shadow of your predecessor."

MFORTABLE.' AmEx director Richard Furlaud dismisses the complaints. He s Golub "enthusiastically endorsed" inson's new role, and Robinson "is nfortable working for his former sub- inate." Golub confirms those views l notes: "I'm moving into what is now 's office," adding that he's "account- e to the board," while Robinson "re- ts to me inside the company."

Still, the notion of a chairman, Robin- , stepping in to run an operating division seems, at the least, unusual. "That, I have never heard of before," says Lorsch. "It's as if President Clinton became Secretary of Defense in the middle of a war and reported to the Vice-President," says E. Wilson Davis, an analyst at Gerard Klauer Mattison & Co.

The stock market's take was not auspicious. AmEx shares dropped 10% in the two days following the news, in part because of AmEx' disappointing earnings report. Profits dropped 39% in '92, to $243 million. And while other brokerages have been raking it in, Shearson only broke even. With special charges, it racked up a miserable $166 million loss.

For months, a handful of dissident directors have been using AmEx' poor performance to push for Robinson's ouster. They apparently took their case to the media. The dirtiest linen was aired just prior to the board meeting in a nasty piece in *The New Yorker* on why some directors didn't like Golub.

But they proved no match for Robinson, a savvy boardroom politician. Over the years, Robinson has forged close ties with his handpicked board. AmEx' 1992 proxy discloses that Director Henry A. Kissinger got a $350,000 consulting fee from AmEx. Robinson and director Drew Lewis, CEO of Union Pacific Corp., sit on each other's boards, and Lewis' son manages some money for AmEx. (Lewis and Kissinger did not return calls.) By the time the board met on Jan. 25, many members were eager to take action because the leaks about board strife were making them look bad. And on Jan. 27, three dissidents, former Mobil Corp. CEO Rawleigh Warner Jr., Fund American Cos. CEO John J. Byrne Jr., and Williams Co. CEO Joseph H. Williams, announced their resignations.

'DO OR DIE.' The biggest surprise in the shuffle was Robinson's takeover of Shearson. "Jim feels a personal obligation to get this done. He is in a do-or-die situation with Shearson," says a source close to the situation. The shift shocked Shearson executives, especially Howard L. Clark Jr., whom Robinson installed as CEO in 1990 and who is now being moved aside, to vice-chairman. Clark Jr. was a Robinson loyalist, but an anti-Robinson campaign by his father, former AmEx CEO Howard L. Clark Sr., soured relations between Robinson and Clark Jr. Also stunned were J. Tomilson Hill and Richard S. Fuld Jr., who were recently promoted to co-presidents of Shearson. Clark Jr., Hill, and Fuld declined comment.

Robinson will have his hands full at Shearson. Clark had made progress in repairing Shearson's balance sheet (BW—Aug. 22). But he never controlled the firm's bloated costs.

Despite the turmoil, a prominent shareholder, money manager Mario Gabelli, applauds the changes. That optimism could depend on two things that are far from clear: Robinson relinquishing control and Golub assuming it.

By Leah Nathans Spiro in New York

James D. Robinson III
Chairman, AmEx

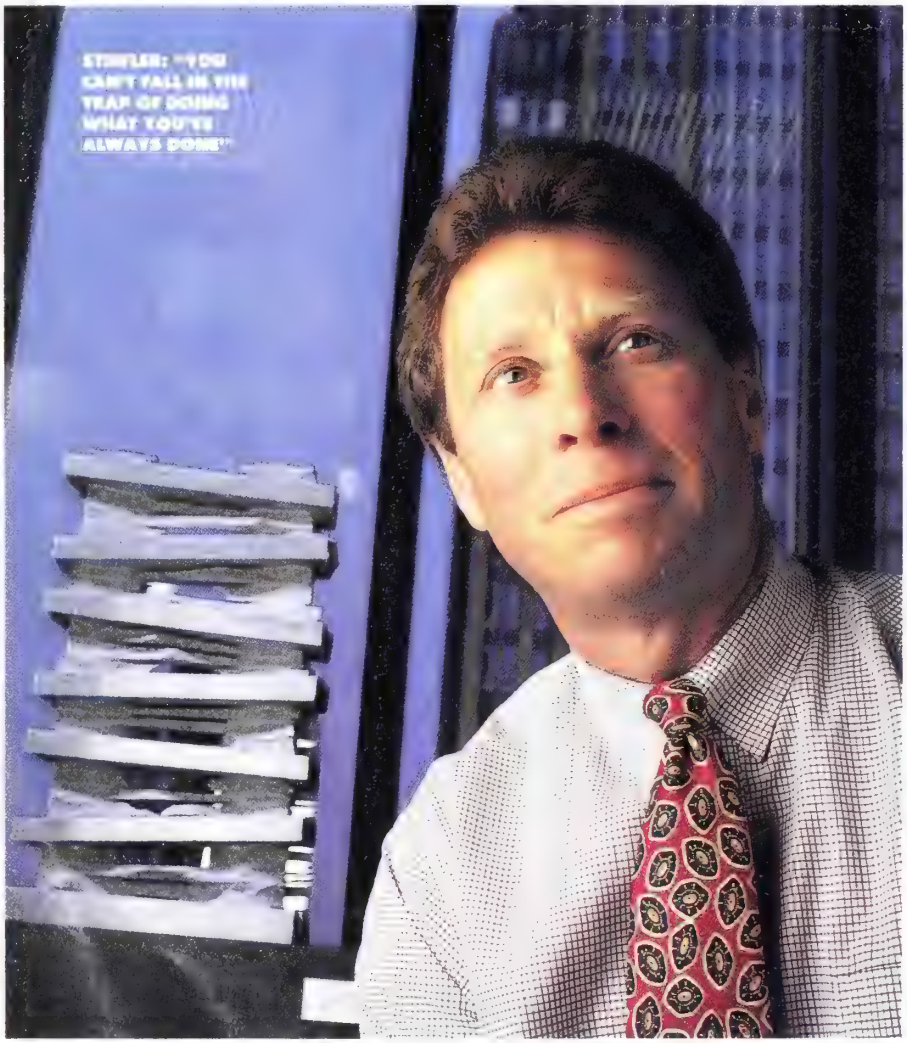
WHO'S REALLY IN CHARGE?

Both share the new Office of the Chief Executive

Harvey Golub
President & CEO, AmEx

RETHINKING IDS FROM THE BOTTOM UP

Plagued by high turnover and facing new rivals, the top financial planner plans a grass-roots makeov



Becky Roloff never intended to turn her company inside out. One night two years ago in her living room in Bloomington, Minn., the IDS Financial Services vice-president was leafing through a 15-page internal company report about the high level of employee turnover. What she read was nauseating in its lack of insight. "My stomach hurt," she recalls.

To Roloff, the superficially treated attrition problem would eventually rot from within the nation's leading financial planner, whose employees prepare plans for clients and sell them IDS' mutual funds, insurance policies, and annuities. IDS was extremely profitable and growing rapidly—as it is today. But, combined with other woes, such as a mistake-prone back-office operation, IDS' high turnover could prevent the Minneapolis-based company from beating back a growing host of new competitors—and threaten its position as the standout performer in the ailing empire of parent American Express Co. (chart, page 111).

Several days later, a fired-up Roloff and another irate colleague, retail banking Vice-President Bill Scholz, trom into IDS President Jeffey E. Stiefler's fice and demanded that the company overhauled totally. They wanted to up a "design team," recruited from grass roots, to consider everything fr financial planners' commission struct to back-office operations. Roloff, w heads IDS' insurance-products operat told her boss: "You're not going to any work done until you listen to We're not going to give up."

Stiefler had to admit that IDS fa serious challenges. IDS Financial vices Inc., with 6,776 planners, once the field to itself with its innovat computerized approach to retirem planning. But the future is filled w competitors such as Merrill Lynch & which has converted legions of brok into financial advisers and written 40, financial plans in the last two years, Prudential Insurance Co., the natio No. 1 insurer, which is making sim moves. IDS can't compete if it contin to see only 30% of its planners last m than four years—with fully half of e first-year class bailing out. What wor in the past, Stiefler figured, won't w in the future.

WRENCHING. Over time, Stiefler bou into Roloff's entire idea. The result: 1994, a comprehensive redesign of company, is set to roll out next year, 100th anniversary of the former Inv tors Diversified Services. Before done, the redesign could cost $1 bill over four years—to be reallocated fr elsewhere within IDS, assuming that promises a 20% return to IDS. The ov haul is perhaps the most far-reaching, well as wrenching and risky, ever tempted by a major financial-servi company.

IDS planners will still soft-sell ret ment planning and hard-sell the IDS fa ily of investment products. But virtua all other aspects of how IDS works be reconfigured. The goal: a force planners who are smarter, more or nized, more plugged into sales pr pects, and better supported by the ho office (table). Instead of flailing ab on their own, planners will get backi

n teams of experts on investments, ıte planning, and tax planning who share in commissions. Rather than ;ting time cold-calling couch potatoes ı curse and hang up, they'll mine re-·als from outside accountants and yers. Meanwhile, back-office im-vements will make the process flow ıother. Plus, if AmEx approves a ıe change to American Express Per-al Financial Planning, planners can ·e easily solicit AmEx card members.

he IDS makeover is a case study of · Corporate America can and should ıtify weaknesses and fix them before 7 really hurt. It also demonstrates · change can bubble up from within company and how top management overcome hidebound concepts of ilege, listen to subordinates' warn-;, and heed their prescriptions.

' the plan works, it could serve as a lel to revamp AmEx. "IDS represents the whole company a very important ıratory for organizational change," ; AmEx President Harvey Golub, the ner IDS chief tapped on Jan. 25 to be Ex' next CEO. He has kept tabs on design team through monthly meet-;. Beyond that, the IDS overhaul ld lead to similar transformations at er financial-services companies, ıse resistance to structural change is ırious. Since revolutionary thinking ·pt through manufacturing and retail-in the 1980s, why should banks, in-·rs, and brokerages be exempt?

ıdeed, there have been moderniza-s at some financial outfits, such as . Morgan & Co. and AT&T Credit p., but nothing on the scale contemplated at IDS. "We've seen a movement from the materials factory to the paper factory. Now, we're starting to see movement from the paper factory to the knowledge factory," says David Nadler, president of Delta Consulting Group Inc. in New York, who isn't involved with the IDS revamp. "IDS is the natural evolution, the next step. The size and scope of [the redesign] is unprecedented."

IMPRACTICAL? Certainly, the plan may fail horribly. It seeks to change an entire corporate culture that is based on independent salespeople. Asking them to share commissions with experts may look good on paper but prove impractical in the field. Prudential has found that insurance sales reps aren't eager to refer prospects to its Prudential Securities Inc. subsidiary for stock-buying.

And there's the question about whether it makes sense to tinker so violently with success. IDS has posted average annual earnings jumps of 22% since AmEx bought the company in 1984, and assets under management have nearly tripled, to more than $65 billion. The typical IDS planner handles client assets of $3.8 million, up 75% from 1984. In 1992, IDS became AmEx' most profitable division, eclipsing flagship American Express Travel Related Services Co., the limping charge-card and travelers-check business, which posted a $342 million restructuring charge. Yet IDS President Stiefler believes that, because of the threat of rapidly growing competition, his company must embrace the new concept: "You can't fall in the trap of doing what you've always done."

The back-office computerization and streamlining will be relatively simple, if costly (eating up $150 million). Today, staffers correcting paperwork mistakes fill an entire floor of IDS' building in downtown Minneapolis. What's more, says Stiefler, as many as 70 of the 110 steps involved in registering a new client are redundant. The result: client complaints and lost time for planners trying to sort out the problems.

But solving the attrition dilemma is IDS' biggest challenge. To be sure, IDS is hardly alone. The problem at many other financial-service companies is as bad or worse. But turnover hurts IDS more than it does such better-known competitors as Merrill and Prudential. The direct cost: half of the $100 million per year in training expenses for employees who don't stay long. Indirectly, turnover means lost business and even more client ill will. "When I took over someone's clients, I'd tell them I would stick with them," says Erich Peterson, an ex-IDS planner from Springfield, Mo. "They'd roll their eyes and say: 'Sure, that's what the last one said.' "

STING A NEW NAME: IDS' OVERHAUL COULD SERVE AS A MODEL FOR AMEX—IF IT WORKS

BLUEPRINT FOR A NEW IDS

Despite these looming problems, Stiefler was skeptical when Becky Roloff first stormed into his office on the 29th floor of the IDS Tower. An overhaul might be needed, he allowed. Even under Golub, the company had considered such a task. But turning the process over to underlings sounded risky. Stiefler believed a redesign should be run by the president's office. "Being an impatient fellow, I wanted a top-down approach," he recalls.

Stiefler agreed to reconsider her suggestion at a meeting the next day. Ro-

BRIAN SMITH

loff, Scholz, and Paul Gustavson, a San Jose (Calif.) consultant who had worked with IDS, spent the night developing a proposal.

Luckily for them, the person to convince was Stiefler, not the sometimes-overbearing Golub. Stiefler, 45, Golub's handpicked successor at IDS, is more open to subordinates. "Harvey is intimidating because of his intellect," says George M. Perry, vice-president for corporate strategy. Stiefler went for the new proposal.

Two weeks later, IDS' senior management gathered at Pecos River Learning Center in New Mexico. IDS 1994 was under way. More than 800 employees responded to an invitation, presented in a slickly produced videotape, to join the 30-person design team that would recreate every aspect of how IDS does business. Chosen from throughout the ranks of IDS planners, headquarters staff, and field executives, the design team first met in January, 1992.

The team was to focus on four key objectives: retaining 95% of clients, retaining 80% of IDS planners through four years of service, achieving annual revenue growth of 18%, and bolstering IDS' position as the industry leader.

HOT DEBATE. The team had one major immediate glitch. After the first meeting, several members noticed that there were only two ethnic minorities and no African-Americans. After a hot debate, the group voted to consult with a companywide "diversity committee" to study IDS' inability to attract and retain minorities as employees and clients.

For the 30 design-team members, it was a heady time. During the next year, they alternated weeks in Minneapolis with weeks in their regular jobs. At Pecos River, consultant Gustavson led a retreat that included negotiating rope bridges over rivers, cliff-jumping, and pole-sitting—all to help team members understand the concept of interdependence and teamwork. "I'll come clean—I wasn't a huge believer in some of that early stuff," says John Hantz, a division vice-president from Livonia, Mich. "I sat back in some of those meetings thinking: 'When are we going to get to work?' "

By July, the design team took to the field, logging more than 1,000 airplane flights over a three-month span. They criss-crossed the country, benchmarking procedures in a variety of industries, from computers to manufacturing to retailing. They called on Motorola, Microsoft, Wal-Mart Stores, Nordstrom, and dozens more.

THE DESIGN TEAM SPENT TWO YEARS BENCHMARKING—AND BRAINSTORMING WITH TOP BRASS

During spring and early summer, the team conducted a thorough "technical analysis" that traced every step of a client's experience with the company and sought to identify paperwork bottlenecks. Interviewing planners, management, and staff, they conducted a "social analysis" of the organizational makeup of the company—concentrating on problems between planners and headquarters staff. The team sought suggestions through employee phone-a-thons, via computer and fax. And they kept the entire company apprised of their work with a regular newsletter.

The exercise began to wear thin on some IDS employees. "I don't know about you, but I'm tired of hearing about the design team," an exasperated Anna Newcombe wrote to the employee newsletter. "I'm tired of getting copies of their self-congratulatory journal entries that seem reminiscent of children at a playgro screaming: 'Mommy, Mommy, look me!' "

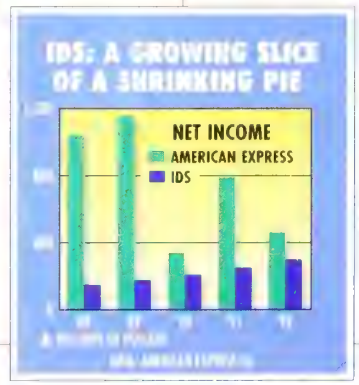
By November, the design team br up into 10 committees and locked it into a week of marathon meetings i suite of conference rooms across street from IDS Tower, hammering o design recommendations in time fo mid-December presentation to Go Posters on the wall exhorted them v sayings such as the Gandhian "Be change you're trying to create." rooms littered with five-gallon bags popcorn, soda cans, and discarded n paper, the committees discussed t "design choices." Memos, suggestio and inquiries circulated among groups over a network of laptop Ma tosh computers.

ROOKIE RELIEF. The final design rec mendations won't be unveiled until February. Once approved by senior m agement, they'll be tested through the company this spring. The attrit problem will be hit head on. One lik approach: Rookies will get a year-lo salaried training period during wh they will shadow successful plann Veterans will be compensated for se ing as "mentors" to rookies.

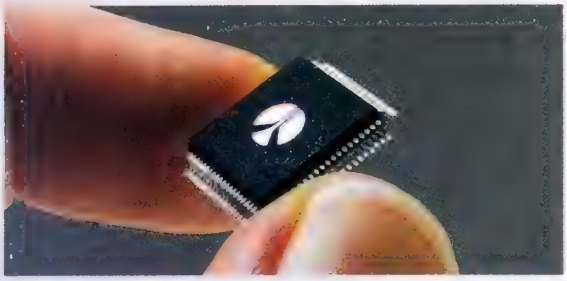
To attract and keep clients, the des team recommends a more focused proach. Cold-calling is encountering creased public resistance. As an alter tive, IDS will use "centers influence"—referrals from outside p fessionals—to find prospective clie Plus, reformulated paperwork and hanced computer technology will red errors and streamline communication

A full rollout of the design team's r ommendations isn't due until 1994, some ideas are already in the fi Homer Nottingham, a Ventura Cou (Calif.) IDS planner, is giving a work to design-team recommendations on l generation, teamwork, and work-fo diversity. He has encouraged m teamwork among his planners and gressively attacked the diversity pr lem. In six months, he has doubled number of women, to 22, and half of current class of 50 new recruits are e nic minorities. "It's bringing in gr teamwork, and we working as a unit no says Nottingham. "T design team has oper our minds." Assumi this all works— from a sure thing- closely watching H vey Golub may use it open minds at Americ Express, too.

By David Greising Minneapolis



One Rockwell customer wants a tiny chip. Another wants the moon.



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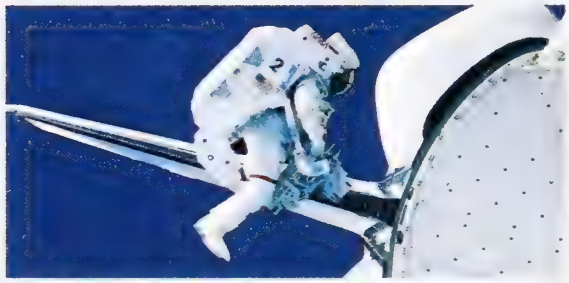

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MUTUAL FUNDS

HAS MAGELLAN RUN INTO A HEAD WIND?

So far, manager Jeff Vinik's high-cash strategy has been just so-so

At Fidelity Magellan, the nation's largest equity mutual fund, the guiding principle could always be summed up thusly: Stocks are king. Through up and down markets alike, Magellan stayed nearly fully invested. But Jeffrey Vinik, who replaced Morris J. Smith as manager last April, has spent the past six months charting a dramatically different course. He has put one-quarter of Magellan into cash and bonds and overhauled the stock portfolio. The results? Hardly exciting. In the second half of 1992, Magellan rose 7.08%, vs. 8.35% for the Standard & Poor's 500-stock index and 12.05% for the average growth fund.

Vinik's unspectacular early showing raises a fundamental question about his management of the $22.6 billion fund, which turned in a stellar performance for 13 years under famed investment guru Peter Lynch and a respectable showing for two years under his successor, Morris Smith. If the fund wasn't broke, why fix it? Well, Vinik maintains that the structure of the fund that he inherited simply won't work in the market climate that lies ahead. Magellan, he says, needed to undergo a major tactical shift. And as he reconfigured the portfolio last year, he played it safe, in the belief that stocks were overpriced. As of Dec. 31, Magellan was 11.8% in cash, 14% in bonds, and 75% in stocks. Last March, by contrast, Smith's Magellan was 89% in stocks, 7.7% in cash, and 3.6% in bonds.

NEW GUARD. The cash horde hurt Magellan's performance—but only temporarily, the 33-year-old Vinik insists. "There's a changing of the guard in the long-term investment environment," says Vinik. And in the first few weeks of the year, at least, his strategy seems to be working. Through Jan. 22, Magellan is up 2.21%, vs. 0.09% for the S&P 500 and 1.46% for the average growth fund.

Vinik believes small and midsize stocks are the place to be for the next few years. But he's also buying some large-cap cyclicals that will benefit from a growing economy—Chrysler Corp. is the largest holding—and he's gambling on a resurgence of energy stocks and continued strength in technology. He has shed consumer stocks—such as Philip Morris Cos. and Coca-Cola Co.—that long dominated Magellan. "It will be easy to beat the S&P 500 because it will be bogged down by consumer nondurables," says Vinik. He's also sold off health-care stocks, reasoning that industry profits could be hurt by Clinton cost-controls, and has shed finance stocks, which he believes are overpriced.

In a sense, Vinik's strategy is comparable to the one that worked well for Lynch when he ran Magellan. Lynch invested in smaller stocks, even as the fund grew larger, and took big positions in industry sectors. Vinik is willing to take even bigger bets on industry groups. "When he sees something he likes, he backs the truck up to the door" and buys heavily, says Lynch, who has returned to Fidelity as a part-time adviser.

Even so, Vinik hasn't gone on a buying spree. Magellan now is made up of fewer than 700 stocks, down from 900 stocks under Smith and 1,300 under Lynch. And Vinik has slowed the pace of trading. His annual turnover rate is now about 100%—the dollar volume of trading is equal to the size of the portfolio. That's down from about 135% under Smith. His average stock is also smaller—though Magellan is hardly a small-cap fund. The average market capitalization is $3.42 billion, down from $4 billion at the end of March.

GAS AND CHIPS. Six of Magellan's top holdings are energy stocks, with an emphasis on natural-gas companies. Vinik favors the gas companies in the belief that the Clinton Administration is leaning toward natural gas as an energy source. His favorite gas play is Burlington Resources Inc., which he says is the "Wal-Mart of the natural-gas industry." In the technology sphere, Vinik is focusing on semiconductor and telecommunications stocks, including Texas Instruments, Compaq, and Sun Microsystems. His favorite techie is Motorola Inc., for which he predicts a harvest of positive earnings surprises in 1993 and 1994.

Chrysler is Vinik's favorite cyclical, despite a recent run-up in the stock. He's keen on its new sedans and its upcoming pickup. Chrysler "has the wind at its back," he says, with costs under control and the market in its favor. Magellan is also pouring money into bonds, mostly one- to five-year Treasuries. Vinik's betting bonds will perform at least as well as the S&P 500. This strategy was used at least once by Lynch, who sunk 20% of the portfolio into bonds in 1983 and profited when rates fell.

Vinik differs from his predecessors in one other way—he wants to see his family now and then. Lynch and Smith worked nights and weekends, but Vinik always leaves at 5:30 to spend evenings with his two children. "I'm not going to miss my kids growing up," he says.

Vinik's methodical, low-stress strategy may prevent fund-manager burnout. But unless he starts putting some wallop into his performance numbers, Magellan's customers may undertake a stress-relief strategy of their own. It's called "redemption."

By Geoffrey Smith in Boston

MAGELLAN'S JEFF VINIK...

...IS OVERHAULING ITS STOCK PORTFOLIO

STOCK GROUP	AS OF: 3/31/92	12/31/92
ENERGY	4.5%	17.7%
UTILITIES	4.6	11.6
TECHNOLOGY	6.8	9.4
FINANCE	15.0	8.2
MEDIA AND LEISURE	6.0	5.2
DURABLES	4.6	4.6
RETAIL/WHOLESALE	7.1	4.1
TRANSPORTATION	0	2.5
HEALTH CARE	13.4	2.3
BASIC INDUSTRIES	6.8	2.1
NONDURABLES	7.3	0

DATA: FIDELITY INVESTMENTS

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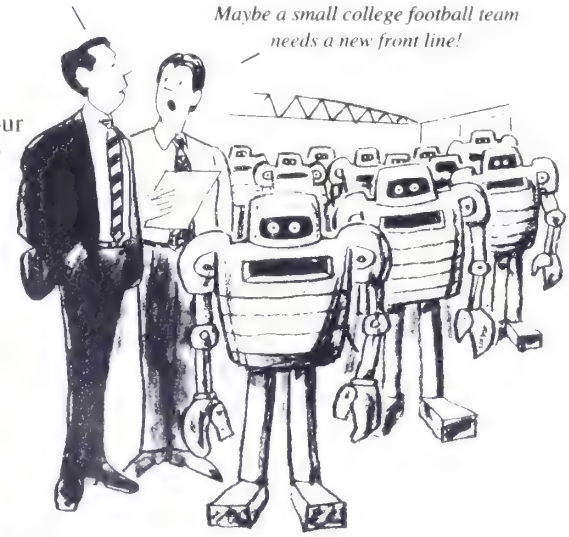

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GOLDEN STATE WARRIORS

California's smaller banks are snagging exiting BofA deposito

It wasn't supposed to work this w When BankAmerica Corp. and S rity Pacific Corp. merged last A to form a $187 billion behemoth, a lysts predicted the new giant w crush the competition. But other Cal nia bankers are fighting back and p ing up new accounts by the thousa

"We see this merger as a once-i lifetime opportunity," says Dennis Shirley, marketing director for First terstate Bank of California. With B closing 450 branches by April, First terstate plans to grab customers are finding banking with BofA a lot convenient. "We're using tactics border on guerrilla marketing."

TUMBLEWEEDS. BofA says it's not w ried. "We have very aggressive acco retention goals, and so far we're d better than we expected," says Lia McGee, group executive vice-presi for retail banking in California.

Still, the marketing assault contin "Lost your sense of Security?" scre Redlands Federal Bank on 25 billbo in suburban Los Angeles. Its newsp ads show two teller lines merging Disneyland-style sign proclaiming the "wait is 45 minutes from this poi Sanwa Bank of California employees setting up sidewalk card tables to up new customers across the street f closing branches. Says Kate M. Grab vice-president for retail marketing: have radio, we have flyers, and w painting our windows like Taco Bell

Others are slightly more subtle. G Western Bank is using actor De Weaver for TV ads in which, after t up his horse in a ghost town, he into "Used to be a bank here. One day it in business; next day it was go Brushing away tumbleweeds, he s Great Western will always be aro Bank of Fresno is promoting free ch ing accounts for senior citizens s BofA dropped a similar program.

The campaigns are working. Ban Fresno's deposits are up 19% since tember, 1991, and Redlands Feder have grown 12%. With 5.5 million ch ing accounts, BofA can afford some fections. But as more branches close, procession of departing customers c start to look like a stampede.

By Larry Armstrong in Los An

GENE G. MARCIAL

NEW CATALOG ING WAITING IN HE WINGS?

What's bad for Sears is, well, good for Service Merchandise, a major catalog show-m merchandiser that operates a in of about 385 stores in 36 states. h Sears Roebuck bailing out of its ear-old general-merchandise cata- business, some big money runners betting that Sears' loss will be Ser- Merchandise's significant gain. So y have started snapping up the ller retailer's shares, now at 15.

There's no doubt that a big part of rs' army of faithful catalog custom- will move their business to Service chandise's catalogs," argues Bill nisch, president of Forstmann-Leff ociates, a New York investment that has accumulated a stake of e than 10% in Service Merchandise. nisch believes the company is a eper" in the otherwise mature up of catalog-merchandise retailers. vice Merchandise promotes its es through a 540-page catalog led out every autumn and through ller catalogs issued during the istmas and spring seasons. The e offers a wide variety of prod- s—from jewelry, diamonds, and sewares to home electronics, sport- goods, and lawn and garden tools. ut Sears' exit from the catalog iness isn't the only reason that Har- h is hot on Service Merchandise, though the company reported flat th-quarter earnings on a 13% rise ales. The company explains the flat ings resulted from increased sales goods that were aggressively dis- nted in price, thus narrowing profit gins. Earnings for all of 1992 rose 3¢ a share from 76¢ in the prior r. Sales increased to $3.7 billion n 1991's $3.3 billion. The results e below analysts' expectations.

IDAY HELPER. The fourth quarter is critical because catalogs are a ly seasonal business. Historically, company posts a loss in the first months. The bulk of its business es during the Christmas rush, ch determines whether the whole r is up or down.

ven so, Harnisch says he remains ish on the stock. He believes the pany will get back on track in its ansion plans this year because of the improving economy and the company's plan to restructure its debt. The debt refinancing, he says, will free up a lot of cash as it will cut interest payments.

Harnisch expects the company to accelerate its growth plans after the debt restructuring. He sees earnings rising to between $1.20 a share and $1.50 this year. He believes the stock will hit the 20s over the next 12 months.

A REAL FOB (FRIEND OF BILL)?

Want to play the Clinton market? Look no farther than Thermo Electron. It will hit it big as the new Administration's policies take hold, explains Larry Marks, managing director of Harbor Capital Management in Boston. "The twist to Thermo Electron is that it looks like a Clinton mini-mutual fund," he says.

Now trading on the Big Board at 50 a share, up from 38 last August, the stock is also a way to participate in the boom in small-cap issues. That's because Thermo Electron has sold minority interests in six subsidiaries to the public. Among them is the 87%-owned Thermo Energy Systems, which develops and operates alternative-energy power plants, such as waste-to-energy electric-power plants and fossil cogeneration facilities. The 80%-owned Thermo Fibertek makes processing machinery for the paper-making and recycling industries.

Marks figures that demand for Thermo Electron's products will soar because the government will require strict enforcement of the Clean Air Act, the Resource Conservation & Recovery Act for hazardous wastes, and the Clean Water Act. Another big plus, says Marks, is the intent of Clinton to support research and development of technologies that will enhance the environment and energy output.

Analyst Paul Knight, of NatWest Securities, sees earnings jumping to $3.10 a share in 1994 from 1993's estimated $2.60 and 1992's $2.12. Marks notes that Thermo Electron's stock is trading below the combined value of its six publicly traded units, which he puts at $60 a share. He thinks Thermo Electron will rise to the 60s in a year.

FIX A WRECK, REAP A SMALL FORTUNE

You might think that auto wrecks and stolen cars are hardly the stuff that would excite Wall Street. But then there's Insurance Auto Auctions. Shares of the only publicly traded company in that business have rocketed from 14 in October to 24 on Jan. 26.

Insurance Auto salvages totally wrecked cars or stolen vehicles that have been damaged. Some of Insurance Auto's partners are major insurance companies, such as Allstate and State Farm Insurance, which sell their insured but damaged cars to Insurance Auto at a fixed contract price. Insurance Auto repairs and refurbishes the cars and then sells them to auto dealers at auctions around the country. The result: fast sales and hefty profits.

"The company's growth has been meteoric, with revenue growth of 30% compounded annually since 1987, and per-share earnings growth of more than 40%," says analyst Joseph Jolson of Montgomery Securities in San Francisco. He expects earnings of 80¢ to 85¢ a share this year, up sharply from last year's estimated 60¢ and 1991's 35¢. Jolson says that despite its fast rise, the stock is likely to climb some more because of strong earnings growth ahead. He thinks the stock's price will be in the 30s sometime this year.

Insurance Auto's share of the salvage-and-auction business is concentrated in a few states. The company has 20% of the California market, 50% of Oregon's, 60% of Arizona's, and 65% of Hawaii's. Analyst David O'Neill of William Blair & Co. thinks that over the next five years, Insurance Auto will emerge as the leading national provider of salvage services to major insurers.

PRO FOOTBALL

DID THE NFL OWNERS GAIN YARDAGE?

Free agency might not be the profit-buster that they feared

With the gorillas of the gridiron about to start pulling down paychecks closer in heft to the fat cats of the baseball diamond, one question looms large: Should we now pity the poor NFL owner?

The answer, after you do the math, is a resounding "No way!"

Last September, when the jury hearing *McNeil et al. vs. the National Football League* declared some 20 players free agents, it became clear that after five years of haggling, the league would have to accept greater player movement. On Jan. 6, it did just that, unveiling a deal with the NFL Players Assn. that grants footballers free agency after six years of service. The trade-off: a cap that will ultimately limit players' pay to 62% of most league revenues.

According to exhibits in *McNeil*, the average team in 1991 spent $27.1 million on player costs, took in revenues of $48 million, and turned an operating profit of $6 million. And a close look at operating costs suggests even those profits may be understated.

The agreement calls for a salary cap to kick in once NFL player salaries reach 67% of designated gross revenues (DGR). That mouthful includes everything but the money that rolls in from stadium concessions and goods licensed by the NFL, as well as luxury-box revenues already pledged to cover mortgage expenses. Once the magic 67% figure is reached, teams will cut payrolls over three years until salaries are equal to 62% of designated gross revenues.

If the 62% cap had been in place in 1991, what kind of money would the owners have made? According to the court exhibits, the NFL had operating revenues of $1.36 billion in 1991. Of that total, some $160 million can generously be assumed to fall outside the definition of designated gross revenues.

That leaves roughly $1.2 billion, or about $42.9 million per team, to go toward operating expenses and player salaries. A salary cap of 62% means that team payrolls would average out to about $26.6 million per team. The remaining $16.3 million, plus monies excluded from the designated gross revenues calculation, would be earmarked to cover operating costs, averaging about $15.3 million per team in 1991. That leaves an average profit of [illegible] million before adding in money excluded from DGR. Throw those funds into the mix, and suddenly you've got per-team operating profits of some $6.5 million. That's right—the NFL version of free agency would have yielded each owner an extra half a million bucks.

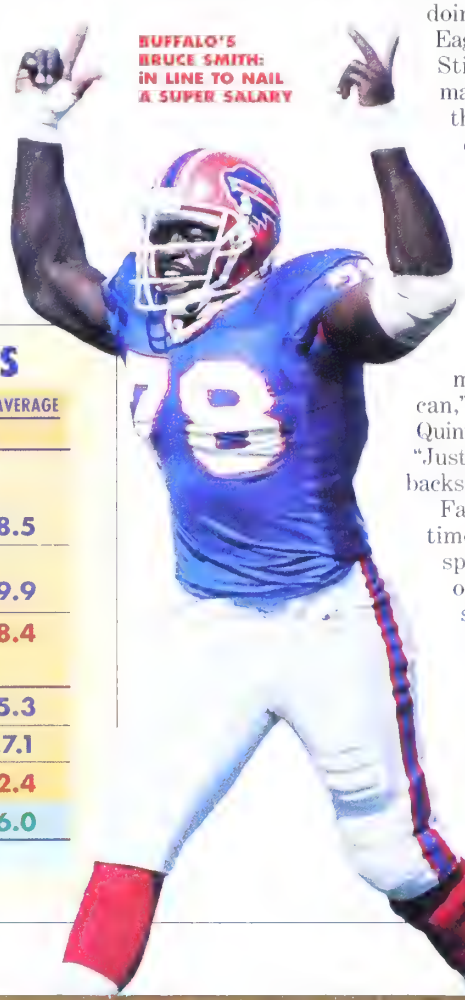
So free agency won't break the bank. And it won't stop some owners from writing themselves big checks. Take the Philadelphia Eagles, owned by car dealer Norman Braman. According to court documents, the Eagles claimed $10.5 million in general and administrative expenses for the 1990 season (team-by-team breakdowns are unavailable for 1991). Rather high, given the league average of $4.9 million for such expenses that year. But the Eagles' administrative costs were inflated by the $7.5 million salary Braman paid himself. By contrast, two other team owners paid themselves nothing at all, and only two besides Braman drew more than $1 million.

A STRETCH. Braman can pay himself whatever he wants. But how many other CEOs make $7.5 million a year for running an organization that in 1990 had revenues of some $51.5 million? And can call Braman's salary an ordinary cost of doing business, as the Eagles did, is a stretch. Still, even with Braman's sizable paycheck, the Eagles' operating costs, including player salaries, totaled $44.8 million in 1990. That left a tidy operating profit of [illegible] million.

"The owners ought to make as much profit as they can," says James W. Quinn, lead union lawyer. "Just don't do it on the backs of the players."

Fair enough. So next time you pick up the sports page and see over the bucks being snagged by a wide receiver, shed no tears for the owner. There's still plenty of money in running an NFL team—whether you want to call it profit or salary.

By Hale Collingwood in New York



BUFFALO'S BRUCE SMITH: IN LINE TO NAIL A SUPER SALARY

THE NFL'S FINANCIAL HIGHLIGHTS

	TEAM TOTAL	TEAM AVERAGE
	Millions of dollars	
1991 REVENUES		
Local (includes ticket sales, local TV and radio, and revenues from concessions and luxury boxes)	$519	$18.5
National (mostly network TV and licensing fees)	839	29.9
TOTAL	$1,358	$48.4
1991 OPERATING EXPENSES		
Total before player costs	$429	$15.3
Player costs	759	27.1
TOTAL	$1,188	$42.4
OPERATING PROFIT	$170	$6.0
OPERATING MARGIN	12.5%	

DATA: COURT DOCUMENTS

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STRATEGIES

ATTEN-HUT! GEORGE SOROS IS HERE

Tektronix moves to placate the powerful investor

For years, Tektronix Inc., a leading maker of television equipment and oscilloscopes, didn't seem perturbed by its flat sales and eroding profits. In fiscal 1992, sales fell 2.5%, to $1.3 billion, and profits tumbled 59%, to $19.7 million. Even Tek's new chief executive, Jerome J. Meyer, who came aboard in 1990, seemed in no hurry to turn things around. Among his first projects: refurbishing the Wilsonville (Ore.) headquarters to the tune of more than $1 million.

Meyer's life at Tek is no longer so leisurely. Last fall, George Soros, the maverick investor and manager of the high-flying Quantum Fund Inc., bought a 13.9% stake in the company for $80 million, prompting speculation that he would break Tek up and sell the pieces. And with reason: Soros and his key deputy, P. C. Chatterjee, have already done that with four other high-tech companies. On Jan. 13, Chatterjee, without admitting any wrongdoing, agreed to pay a $644,000 fine to the Securities & Exchange Commission, which alleged that he conveyed inside information about the impending sale of one of those companies, Foxboro Corp.

In Tek's case, the numbers suggested that a breakup made sense. The company's current market value is $685 million, compared with roughly $1 billion if the pieces are sold separately (table).

SOROS: A 13.9% STAKE—FOR NOW

Faced with the chance Tek's days are numbered, Meyer, 54, is attempting a turnaround. And the engineer and former Honeywell Inc. executive recently won some breathing room. After getting two board seats last November, Soros agreed not to increase his stake until April, 1994. Soros declines to comment, but Chatterjee says a breakup isn't the only solution: "We want the value of our stock to go up, that's all."

Meyer's strategy: slash expenses and lean on promising new products to offset the atrophy of Tek's core electronic-instrument business. He also hopes a planned stock buyback in 1993 will placate shareholders by boosting Tek's stock—recently trading at 23, down from the high 30s a decade ago. To help with his plans, Meyer has hired former Apple Computer Operating Officer Delbert W. Yocam as Tek's president.

SKEPTICS. Turning Tek around will be tough. Its main business, electronic testing and measurement equipment, is eroding. Many of its products, which engineers use to test electrical components, are being replaced by elaborate computer programs. The unit's sales totaled $725 million last year—down 21% from 1987. Sales at Tek's television-equipment unit also fell by 8% last year, to $271 million, but they are expected to pick up as the broadcasting industry revi

To counterbalance the weak u Meyer is concentrating on Tek's pro ing color-printer business. It's on the few payoffs from Tek's richly fu research and development eff Launched in 1991, the $4,000-to-$10 Phaser printers are a hit—and the cheaper than comparable products f Hewlett-Packard Co. and Canon Inc

Cost-cutting could also improve bottom line. Meyer says he will re operating costs by 7% this year, m through layoffs, saving $30 mil Down the road, Meyer hopes to the stock buyback with $50 million f a 28-year-old joint venture manage Sony Corp. The Sony-Tek partner sells Tek products in Japan but pay regular dividends. Tek is negotiating a special dividend to claim half of joint venture's accumulated cash.

Many are unconvinced Meyer can off a turnaround. Tek "has to make s significant changes," says Prudential

CEO MEYER: PUSHING FOR A TURNAROUN

curities analyst Laura Conigliaro. estimates 1993 earnings will rise 8% $35 million, thanks in part to cost- ting, while revenues will be up a s 1%. The Soros faction is also skept Observes Paul Ely Jr., a Soros-nomi ed director: "Can the company p ahead in three disparate areas and successful? The answer is probably

For his part, Meyer insists Tek is ter off in one piece. He says a study commissioned from Goldman, Sach Co. backs him up—but declines to s any of the findings. "Both financially strategically, it makes sense to keep as a whole," he says. Maybe. But M had better hope he can bring such exacting investor as George S around to his way of thinking.

By Jeff Manning in Wilsonville, C and Elizabeth Lesly in New York

THE SUM OF ITS PARTS?

TEKTRONIX' MARKET VALUE
$685 million as of Jan. 26

BREAKUP VALUE* $930 million to $1.1 billion

TEST & MEASUREMENT Sells oscilloscopes and other electronic instruments
VALUE: $360 million

COMPUTER GRAPHICS Sells color printers and graphics terminals
VALUE: $300 million to $400 million

TELEVISION SYSTEMS Manufactures television transmission and editing equipment for the broadcasting industry
VALUE: $270 million to $360 million

*Estimates

DATA: COMPANY REPORTS, BLACK & CO. ESTIMATES

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UNIONS

SATURN: LABOR'S LOVE LOST?

New pressures—and new workers—strain its cooperative spirit

One of the nation's leading experiments in labor-management cooperation got a jolt on Jan. 13. While cranking out their daily quota of 1,100 hot-selling subcompacts, 5,000 union workers at Saturn Corp. voted in a key referendum on the company's innovative labor system. A majority of workers at the Spring Hill (Tenn.) factory voted to keep the current setup. But a surprising 29% backed a shift toward traditional, arm's-length labor relations that would be more adversarial than the current de facto partnership with management. "We are not being represented," grumbles assembler Terry Walton, who thinks Saturn's union leaders have become too cozy with the bosses.

Such dissent illustrates the growing pressures that may endanger one of the most progressive experiments in U. S. industrial relations. Saturn workers have an unprecedented degree of control in running the company. Teams of 15 or so factory workers handle everything from hiring to budgets. A joint-management structure allows union officials a say-so at every level, right up to the governing Strategic Action Council, where they participate fully in selecting suppliers, future products, and advertising campaigns. The enthusiasm this generated among the initial group of 3,200 United Auto Workers (UAW) members, mostly hired in 1988 and 1989, has been key in making Saturns among the highest-quality U. S.-built cars.

LESS TRAINING. Now, though, a number of factors are marring that harmonious atmosphere. To meet the high demand, the Saturn plant has gone on 50-hour workweeks that are taking a toll on workers. In addition, recent hires tend to be less gung ho about cooperation. Many of the 1,800 who have transferred into Saturn since late 1990 after being laid off at other General Motors plants voted against the referendum, union leaders say. The problems have been compounded by what may turn out to be a short-sighted decision by Saturn's management. Despite objections from UAW leaders, it has cut by 50% or more the extensive training for new workers that helped the original work force learn cooperative work methods. And Saturn now is bringing aboard 1,000 more ex-GMers, who presumably will add to the dissidents' ranks.

THE UAW'S BENNETT MAY FACE A CHALLENGE

The dissatisfaction is reaching the point where dissidents may challe Michael Bennett, president of Satu UAW Local 1853 since the plant ope in elections slated for May or J Meanwhile, Bennett says he is bur out from seven-day workweeks and not run for reelection. "I'm serio thinking about letting somebody carry the torch," he says. His depar could be a serious blow to Saturn, w he has been a prime architect of union's cooperative role.

The turmoil couldn't have arrived worse time. Consumers can't get en Saturns, and the company is crankin a third work crew to lift produc from 240,000 to 310,000 cars a year. new shift is due to start just before union election. Saturn also is under tense pressure from struggling GM erase last year's $700 million loss. W ers will have to cut costs and boost ductivity for the company to break e this year, as Saturn President Rich "Skip" LeFauve has promised. Some ployees already are grumbling ab company efforts to increase work lo for instance by reducing team sizes. company recently offered a car Workers can earn bonuses of $3,00 more each if Saturn gets into the b by midyear and stays there.

SMALLER POOL. Even big bucks may be enough to get Saturn's work f to pull together. When the company gan hiring in the mid-1980s, any member at GM could apply. More t 16,000 did, and those who left their jobs were largely attracted by the pr ise of a greater role in workplace c sions. But in the labor pact GM and UAW signed in September, 1990, the sides agreed that Saturn would hire workers laid off from other GM plan

That has cut the pool of applic for the Tennessee plant and restri Saturn's ability to screen out those are lukewarm about cooperation. many new hires who went through t matic plant closings have come to Sa only for the job. They distrust the U close ties with management. "These f are tougher to integrate Saturn," says Timothy E the company's personnel c

Changes in the training gram are making the inte tion harder. Saturn wants arrivals on the line pront help relieve workers who worked 50-hour weeks more than a year. So new ployees get just 175 hour initial schooling, compa with up to 700 hours bef And instead of first learn basic skills that are crucia

WHAT'S FUELING DISSENT AT SATURN

- Recent hires who are often less committed to Saturn's employee-participation ideals
- Burnout from 50-hour-and-up workweeks
- Growing distrust of the union's close ties with Saturn's management
- Anger at lack of elections for key union posts on the shop floor
- A scaling-back of training for new workers

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ow hair grows:

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Side effects were minimal: 7% of those who used ROGAINE had itching of the scalp. ROGAINE should only be applied to a normal, healthy scalp (not sunburned or irritated).

Make a 4 to 6 month commitment to see results:

Studies indicate that *at least 4 months of twice-daily treatment* with ROGAINE are usually necessary before there is evidence of regrowth.

As you'd expect, if you are older, balding longer, or have a larger area of baldness, you may do less well.

ROGAINE is a treatment, not a cure. So further progress is possible only by using it continuously. Some anecdotal reports indicate that if you stop using ROGAINE, you will probably shed the newly regrown hair within a few months.

Here's what you should do:

Individual results vary widely. So discuss your hair loss with your doctor to understand what you can realistically expect. Only a doctor can prescribe ROGAINE. So see a *dermatologist or another doctor experienced in treating hair loss* today. Why just accept what nature has handed you when you can fight back?

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What is ROGAINE?
ROGAINE Topical Solution is a prescription medicine for use on the scalp that is used to treat a type of hair loss in men and women known as androgenetic alopecia hair loss of the scalp vertex (top or crown of the head) in men and diffuse hair loss or thinning of the front and top of the scalp in women ROGAINE is a topical form of minoxidil, for use on the scalp

How effective is ROGAINE?
In men: Clinical studies with ROGAINE of over 2,300 men with male pattern baldness involving the top (vertex) of the head were conducted by physicians in 27 US medical centers Based on patient evaluations of regrowth at the end of 4 months, 26% of the patients using ROGAINE had moderate to dense hair regrowth compared with 11% who used a placebo treatment (no active ingredient). No regrowth was reported by 41% of those using ROGAINE and 60% of those using a placebo By the end of 1 year, 48% of those who continued to use ROGAINE rated their hair growth as moderate or better

In women: Clinical studies with ROGAINE were conducted by physicians in 11 US medical centers involving 256 women with hair loss. Based on patient evaluations of regrowth after 32 weeks (8 months), 19% of the women using ROGAINE had at least moderate regrowth compared with 7% of those using a placebo No regrowth was reported by 41% of the group using ROGAINE and 60% of the group using placebo

How soon can I expect results from using ROGAINE?
Studies show that the response time to ROGAINE may differ greatly from one person to another Some people using ROGAINE may see results faster than others, others may respond with a slower rate of hair regrowth You should not expect visible regrowth in less than 4 months

How long do I need to use ROGAINE?
ROGAINE is a hair-loss treatment, not a cure. If you have new hair growth, you will need to continue using ROGAINE to keep or increase hair regrowth If you do not begin to show new hair growth with ROGAINE after a reasonable period of time (at least 4 months), your doctor may advise you to discontinue using ROGAINE

What happens if I stop using ROGAINE? Will I keep the new hair?
Probably not People have reported that new hair growth was shed after they stopped using ROGAINE

How much ROGAINE should I use?
You should apply a 1-mL dose of ROGAINE twice a day to your clean dry scalp, once in the morning and once at night before bedtime Wash your hands after use if your fingers are used to apply ROGAINE ROGAINE must remain on the scalp for at least 4 hours to ensure penetration into the scalp. Do not wash your hair for at least 4 hours after applying it If you wash your hair before applying ROGAINE, be sure your scalp and hair are dry when you apply it. *Please refer to the Instructions for Use* in the package

What if I miss a dose or forget to use ROGAINE?
Do not try to make up for missed applications of ROGAINE You should restart your twice-daily doses and return to your usual schedule

What are the most common side effects reported in clinical studies with ROGAINE?
Itching and other skin irritations of the treated scalp area were the most common side effects directly linked to ROGAINE in clinical studies About 7 of every 100 people who used ROGAINE (7%) had these complaints

Other side effects, including light-headedness, dizziness, and headaches, were reported both by people using ROGAINE and by those using the placebo solution with no minoxidil You should ask your doctor to discuss side effects of ROGAINE with you

People who are extra sensitive or allergic to minoxidil, propylene glycol, or ethanol should not use ROGAINE

ROGAINE Topical Solution contains alcohol, which could cause burning or irritation of the eyes or sensitive skin areas If ROGAINE accidentally gets into these areas, rinse the area with large amounts of cool tap water Contact your doctor if the irritation does not go away If the spray applicator is used, avoid inhaling the spray

What are some of the side effects people have reported?
ROGAINE was used by 3,857 patients (347 females) in placebo-controlled clinical trials Except for dermatologic events (involving the skin), no individual reaction or reactions grouped by body systems appeared to be more common in the minoxidil-treated patients than in placebo-treated patients

Dermatologic: irritant or allergic contact dermatitis—7 36%, **Respiratory:** bronchitis, upper respiratory infection, sinusitis—7.16%, **Gastrointestinal:** diarrhea, nausea, vomiting—4.33%, **Neurologic:** headache, dizziness, faintness, light-headedness—3.42%, **Musculoskeletal:** fractures, back pain, tendinitis—2.59%, **Cardiovascular:** edema, chest pain, blood pressure increases/decreases, palpitations, pulse rate increases/decreases—1.53%; **Allergic:** nonspecific allergic reactions, hives, allergic rhinitis, facial swelling, and sensitivity—1.27%, **Metabolic-Nutritional:** edema, weight gain—1 24%, **Special Senses:** conjunctivitis, ear infections, vertigo—1.17%, **Genital Tract:** prostatitis, epididymitis, vaginitis, vulvitis, vaginal discharge/itching—0.91%, **Urinary Tract:** urinary tract infections, renal calculi, urethritis—0 93%, **Endocrine:** 0.47%, **Psychiatric:** anxiety, depression, fatigue—0 36%, **Hematologic:** lymphadenopathy, thrombocytopenia—0 31%

ROGAINE use has been monitored for up to 5 years, and there has been no change in incidence or severity of reported adverse reactions Additional adverse events have been reported since marketing ROGAINE and include eczema; hypertrichosis (excessive hair growth); local erythema (redness), pruritus (itching), dry skin/scalp flaking, sexual dysfunction; visual disturbances, including decreased visual acuity (clarity); increase in hair loss; and alopecia (hair loss)

What are the possible side effects that could affect the heart and circulation when using ROGAINE?
Serious side effects have not been linked to ROGAINE in clinical studies However, it is possible that they could occur if more than the recommended dose of ROGAINE was applied, because the active ingredient in ROGAINE is the same as that in minoxidil tablets These effects appear to be dose related, that is, more effects are seen with higher doses

Because very small amounts of minoxidil reach the blood when the recommended dose of ROGAINE is applied to the scalp, you should know about certain effects that may occur when the tablet form of minoxidil is used to treat high blood pressure Minoxidil tablets lower blood pressure by relaxing the arteries, an effect called vasodilation Vasodilation leads to fluid retention and faster heart rate The following effects have occurred in some patients taking minoxidil tablets for high blood pressure

Increased heart rate some patients have reported that their resting heart rate increased by more than 20 beats per minute
Salt and water retention weight gain of more than 5 pounds in a short period of time or swelling of the face, hands, ankles, or stomach area
Problems breathing especially when lying down, a result of a buildup of body fluids or fluid around the heart
Worsening or new attack of angina pectoris brief, sudden chest pain

When you apply ROGAINE to normal skin, very little minoxidil is absorbed You probably will not have the possible effects caused by minoxidil tablets when you use ROGAINE If, however, you experience any of the possible side effects listed above, stop using ROGAINE and consult your doctor Any such effects would be most likely if ROGAINE was used on damaged or inflamed skin or in greater than recommended amounts

In animal studies, minoxidil, in much larger amounts than would be absorbed from topical use (on skin) in people, has caused important heart-structure damage This kind of damage has not been seen in humans given minoxidil tablets for high blood pressure at effective doses

What factors may increase the risk of serious side effects with ROGAINE?
People with a known or suspected heart condition or a tendency for heart failure would be at particular risk if increased heart rate or fluid retention were to occur People with these kinds of heart problems should discuss the possible risks of treatment with their doctor if they choose to use ROGAINE

ROGAINE should be used only on the balding scalp Using ROGAINE on other parts of the body may increase minoxidil absorption, which may increase the chances of having side effects You should not use ROGAINE if your scalp is irritated or sunburned, and you should not use it if you are using other skin treatments on your scalp

Can people with high blood pressure use ROGAINE?
Most people with high blood pressure, including those taking high blood pressure medicine, can use ROGAINE but should be monitored closely by their doctor Patients taking a blood pressure medicine called guanethidine should not use ROGAINE

Should any precautions be followed?
People who use ROGAINE should see their doctor 1 month after starting ROGAINE and at least every 6 months thereafter Stop using ROGAINE if any of the following occur salt and water retention, problems breathing, faster heart rate, or chest pains

Do not use ROGAINE if you are using other drugs applied to the scalp such as corticosteroids, retinoids, petrolatum, or agents that might increase absorption through the skin ROGAINE is for use on the scalp only Each 1 mL of solution contains 20 mg minoxidil, and accidental ingestion could cause unwanted effects

Are there special precautions for women?
Pregnant women and nursing mothers should not use ROGAINE Also, its effects on women during labor and delivery are not known Efficacy in postmenopausal women has not been studied. Studies show the use of ROGAINE will not affect menstrual cycle length, amount of flow, or duration of the menstrual period Discontinue using ROGAINE and consult your doctor as soon as possible if your menstrual period does not occur at the expected time

Can ROGAINE be used by children?
No, the safety and effectiveness of ROGAINE has not been tested in people under age 18
Caution: Federal law prohibits dispensing without a prescription You must see a doctor to receive a prescription

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The Workplace

the smooth operation of Saturn's tea
such as conflict management, new h
initially focus on such job-specific sk
as power-tool operation.

The shift has spawned heated del
among Saturn's leaders. Bennett wa
more up-front training so new arri
can quickly learn Saturn's ethic of w
er self-management. But company
cials think more training is a lux
they can't afford. So far, they do
that growing employee unhappiness
damage quality or productivity. S
Epps: "There's not much time to st
around and chin-wag about philosop
THE RIGHT THINGS. The unrest may re
a boiling point in the upcoming un
elections. The most likely challenger
Bennett's spot appears to be He
Campbell, a vice-president of the lo
At an August membership meeti
Campbell challenged Bennett and
union structure he has helped put
place.

> With demand for Saturns
> so keen, 'there's not much
> time to stand around and
> chin-wag about philosophy

This structure was the issue in
Jan. 13 referendum. Bennett called
vote in an effort to head off the grow
debate over cooperation. He wan
workers to support a policy wher
UAW and company officials appoint
shop-floor union leaders who act as m
dle managers. Dissidents such as Ca
bell say appointees sometimes ign
members' gripes and focus on wh
best for the company. They want th
officials to be elected. Bennett respo
that turning the jobs into political po
would undermine the partnerships un
appointees forge with their jointly
pointed management counterparts. E
Riley, an appointed UAW adviser, agre
"I try to do what's right, not wha
have to do to get votes."

Saturn's labor uncertainties are
the more unsettling because the co
pany is doing so many things right.
cars have become top sellers largely
cause of the diligence of employe
Even dissenting workers know they
part of a laboratory for new ideas. "
are the future of the American car
dustry, if it has a future," muses wor
Walton. This bold experiment may
into trouble, though, if Saturn can't i
out this round of problems.

By David Woodruff in Spring H
Tenn.

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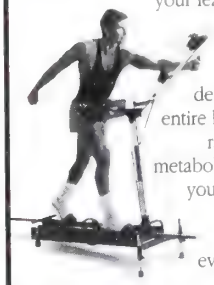

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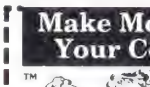

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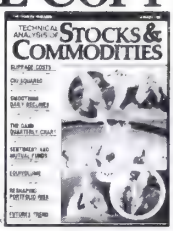

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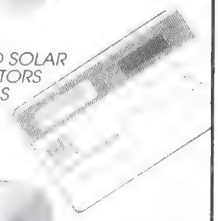

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THE CORPORATE CHOICE

EDITED BY AMY DUNKIN

Museums

HOT TICKET FOR '93: A MUSEUM NEAR YOU

The museum world goes gaga over blockbuster art exhibits such as the Henri Matisse retrospective that recently closed in New York. But if you're a culture lover who enjoys viewing more than paintings and sculpture, museums across the U. S. are offering a vast smorgasbord of treats this year.

Some new exhibits celebrate our roots, whether through folk art, America's industrial heritage, or the interests of founding father Thomas Jefferson. Many invite you to do more than admire, with a growing emphasis on hands-on displays. Also on the agenda are some impressive new institutions, such as the $67.5 million Liberty Science Center in New Jersey, which opened Jan. 24.

Bill Clinton's preinaugural pilgrimage to Charlottesville, Va., came too early for the really big event there. An unprecedented show called "The Worlds of Thomas Jefferson at Monticello," Apr. 13 through Dec. 31, will be the centerpiece of a year-long celebration of the 250th anniversary of his birth. The nation's third President was an inveterate collector, and the show reunites more than 150 of his paintings, furniture pieces, books, maps, instruments, and natural-history specimens. Drawn from more than 50 museums and private collections, they'll go where Jefferson placed them, recreating Monticello as it has not been seen for generations. You'll find, for example, the mahogany lap desk on which Jefferson drafted the Declaration of Independence, and his unusual revolving Windsor chair.

If you c make it to M ticello, you catch three re ed exhibits New York: his manuscri now on view at the J. P. M gan Library; documents portraits of Jefferson at New York Historical Soc opening in March; and "Th as Jefferson and the De of Monticello" at the Equit Gallery, beginning Oct. 7.

LOVE LETTER. Down the r from William Jefferson C ton's new digs, check out Great Hall of the Librar Congress, which just reopened—beaut ly restored—after th years of renovation honor of the occas the institution is sh casing a collectior treasures from the V can. "Rome Reborn: Vatican Library and Rebirth of Rome," c through Apr. 30, c memorates the role five-century-old libr played in lifting R from plague and sch to the glory of the R aissance. From a letter Henry VIII w to Anne Boleyn t drawing of sunspots Galileo, the show filled with docum rarely seen by laym and never in Ameri

"WALK THROUGH TIM AT THE FERNBANK IN ATLANTA (LEFT); MAK ELECTRICITY AT THE FORD IN DEARBORN, MICH.; VIEW AN ARISTOTLE MANUSCRI AT THE LIBRARY OF CONGRESS; EXPLORE WOOD CARVING AT TH FOLK ART MUSEUM IN SANTA FE, N.M. (INSE

nver and Cincinnati also reopened treasures. The er Art Museum's "Cen- al Celebration," starting 6, features expanded olumbian, Spanish Colo- and Asian galleries. The nnati Art Museum, re- ng after a two-year, million facelift, showcas- chitectural details of its nesque 1886 main build- hat had been obscured ore than 40 years.

Denver piques your st in Hispanic culture, south to New Mexico. s Generations: Hispanic en and Folk Traditions," 4 through July 5 at the m of International Folk Santa Fe, shows how pass from one genera- the next. The exhibit es the work of 51 chil- including three-year-old Rae Córdova. She d to carve wood by im- her grandmother, who large religious figures *bultos* in Cordova, N. M. why only view some- se's creativity? The $45 Fernbank Museum of al History in Atlanta, opened last October, is o the trend of provid- interactive experience. ng is especially encour- n two discovery galler- children crafted by Ed- hlossberg, a New York er. The centerpiece is igallery "Walk Through n Georgia" exhibit that s changes in the natural environment over the eons, including a multistory dinosaur display.

For more hands-on fun, take a ferry from downtown Manhattan to the new Liberty Science Center in Liberty State Park. A great place for kids, the museum presents imaginative interactions with the world of science. An insect zoo has live specimens you can hold, while a mirror maze and 100-foot touch tunnel toy with your senses. An eight-story domed screen is featuring a film about the body, *To the Limit*, which shows the breathtaking feats of a mountain climber, a ski racer, and a ballerina.

Hands-on displays and heritage also join forces at a new permanent exhibit at the Henry Ford Museum in Dearborn, Mich. Divided into three parts, "Made in America" combines some of the museum's long-standing collection of industrial artifacts with new displays.

The first section, "Making Things," amounts to a historical factory tour through mass- and craft-production methods. "Making Power" traces power-generating technology and includes a touch-screen computer where you can simulate controlling an electric power plant. "Making Choices" literally bridges the first two exhibits—on a raised platform—and uses videos and interactive computers to show how industrial decisions reverberate through society. Along with hardware, the show examines the human side of manufacturing.

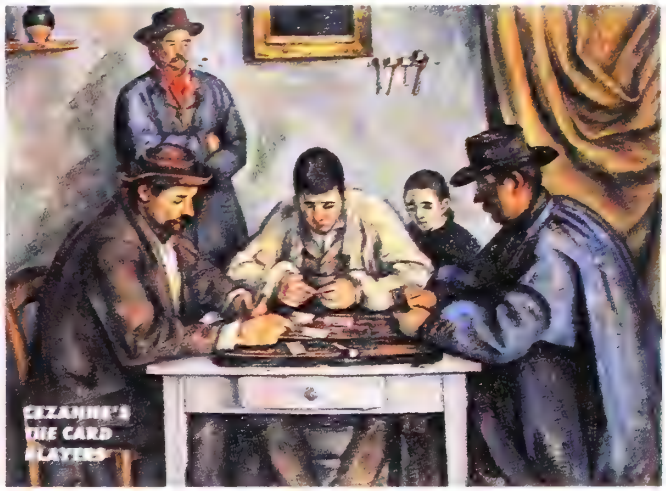
An exhibit now in the second of a six-year tour takes up the themes of the Fernbank Museum and Henry Ford's "Made in America." At "Science in Toyland," kids can explore the principles behind, say, making a top spin longer. It will be in St. Paul, Minn., Boston, and Fort Worth in 1993. *Jim Treece*

WHERE AND WHEN?

um	Hours
BANK MUSEUM, NTA	9-6, Mon.-Sat.; Noon-6, Sun.
Y FORD MUSEUM, BORN, MICH.	9-5, daily
TY SCIENCE ER, Y CITY, N.J.	9:30-5:30, Tues.-Thurs.; 9:30-6:30, Fri.-Sun.
RY OF RESS	9-5, Mon.-Sat.; 1-5, Sun.
ICELLO	10-5, daily
USEUM OF NATIONAL ART, SANTA FE	10-5, daily except Mon.

DATA: BUSINESS WEEK

CANVASSING THE ART SCENE THE WORLD OVER



If you travel and you love art, you won't want to be without the *1993 Traveler's Guide to Art Museum Exhibitions*. This handy paperback (Museum Guide Publications/Abrams, $12.95) is a compendium of data on 1993's major traveling exhibitions and the permanent collections of 200 museums in the U. S., Canada, and Europe. A bit bigger than pocket-sized, it's still easy to pack and carry.

Listed up front are the touring shows. Guide in hand, you would know, for example, that in May, the place to be is the National Gallery of Art in Washington. That's when and where to see "Great French Paintings from The Barnes Foundation," one of the year's best shows.

COURT FIGHT. Because of Dr. Albert C. Barnes's will, the Merion (Pa.) museum is open limited hours and has never let its more than 1,000 paintings and drawings by Matisse, Picasso, and other masters travel. A 1992 court ruling allowed 80 of the finest works, including Cézanne's magnificent *The Card Players*, to go on tour. The show runs until Sept. 6, then moves to Paris, Tokyo, and Philadelphia (in 1994).

The *Guide*'s list covers every taste. Admirers of contemporary art can find shows of Agnes Martin (Milwaukee, Miami, Houston) and Susan Rothenberg (Buffalo, Washington, St. Louis, Chicago). The classical-minded might like to know that a show of Dutch and Flemish Old Masters will visit Pittsburgh, Boston, and Seattle. The book is also helpful if you missed something, perhaps San Francisco's big Jeff Koons exhibit—which heads to Minneapolis next summer—or "Egypt's Dazzling Sun: Amenhotep III and His World," which just ended its Fort Worth run. You can catch up with the pharaoh's treasures at Paris' *Galeries Nationales du Grand Palais*, Mar. 2 to May 31.

Next in the *Guide* is a city-by-city listing of special shows at major museums and a brief description of their permanent collections. Addresses, phone numbers, hours, admission charges, and food facilities are provided. Two indexes—one of cities, one of museums—make the book easy to use.

For business travelers and tourists, the *Guide* can be indispensable. Indeed, thumb through its pages and you may find yourself planning your trips around its listings. *Judy Dobrzynski*

Finance

MORTGAGE RATES: FIXED OR GAMBLE?

Who would have thought a year ago that mortgage rates would still be so low? Initial teaser rates for one-year, adjustable-rate loans have slipped from an average of 5.45% in July to 5.20% today, with some ads boasting 4.5%. And 30-year fixed rates are the lowest they've been in a decade, averaging 8.13% but hitting 7.75% in some regions. Choosing between the two types is a dilemma not only for home buyers seeking new loans but for those who leaped at "convertible" ARMs a year ago and may now switch to a low fixed rate.

If you took the adjustable-rate plunge last January, a decline in short-term rates means that last year's 5% ARMs sport a still-pleasing 5.9% today. The choice whether to convert to a fixed rate rests largely on how long you plan to stay in your home. If you're moving in the next few years, your ARM will serve you well. But if you're staying put, you can't go very wrong by locking in now.

Converting your ARM is easy. While a traditional refinancing might mean $2,500 in closing costs and weeks of hassles, switching to a fixed rate may cost as little as $250 and only take days. But the conversion rate will probably be above the going fixed rate. Today, that can mean paying 8.5% compared with the 7.75% or 8% you might get in a traditional refinancing. Some convertible ARMs offer the reverse: a lower rate, but a bigger charge to convert.

For buyers who want a new mortgage, the choice between a fixed or floating rate also depends on the time horizon. "If you look at an ARM that's 2% less than the comparable 30-year fixed, even if rates go through the roof, ARMs will cost you less over the first three to four years," says Paul Havemann, vice-president of HSH Associates, a Butler (N. J.) mortgage-tracking firm. Rates on one-year ARMs change annually and often track one-year Treasury securities. The best ARMs don't let the at rise by more than w percentage poin year and cap the f time increase at s percentage p above the initial r

THE HORROR. A si comparison shows appeal of adjusti rates. Monthly ments on a $200 30-year mortgag 8.00% would be $1 payments on a 5 one-year ARM wou $1,104 the first y Say the ARM's went up the maxi two percentage points a for the next three years ter three years, you w save $3,462 with the ARM by the end of the fourth when your rate would 11.25%, you would have out a total of $72,679, $ more than with the fixed loan. Of course, if you willing to gamble, and int rates don't follow this w case scenario, you migh better with an ARM for longer. *Suzanne W*

Smart Money

SIRENs: CONVERTIBLES WITH A TRICKY SHIFT

The word "siren" can evoke a wailing police car or a sweet-voiced temptress. Now, it's also an acronym for a newfangled type of bond: the Step-up Income Redeemable Equity Note. Invented by First Boston, SIRENs are intermediate-term, convertible bonds that have two coupons. They pay below-market interest for a few years, then "step up" to a higher rate until maturity. Investors can convert the bonds, whenever they want, into common stock at a price determined by the issuer.

A good deal or a dog? Like other convertibles, SIRENs are a defensive investment. If the common stock does well, you turn a profit but don't make as much as if you had bought common shares. If the stock collapses and you don't convert the SIREN, your capital is safe, but you'll earn less income than with a plain-vanilla bond. First Boston thinks people will accept the initially low interest rate to bet on a growing company without taking a big risk. Both the first SIREN issue, for insurer Horace Mann Educators Corp. in mid-December, and the second, floated Jan. 20 for crafts retailer Michaels Stores, got about average ratings for convertible bonds.

But the fly in the ointment is the call provision. Issuers can call the bond at the time of the step-up, paying a slight premium over par. You still have 30 days to convert to common stock. If the stock doesn't rise and your SIREN is called, you've sacrificed two or three years of market-rate yield and have little to show for it.

Take the Michaels Stores issue. The notes are due in 2003, paying 4.75% until January, 1996, and 6.75% to maturity. Each SIREN, bought at $1,000, is redeemable at $38 per share for 26.32 common shares. When the SIRENs were issued, the stock was around 31. Say it goes up 50%, to 46½, by the time of the s up. If you convert, y $1,000 SIREN is worth al $1,224. Add in three year interest, or $142.50, and y total return is about 37%

SAFETY NET. Should the st go through the floor inst all is not lost. If the SI is called, Michaels Stores pay you $1,040 for y bond. If it's not, you ha seven-year security pa 6.75%. And if you nee sell early, First Boston culates that even in a w case scenario, you'll get c to 90% of par.

Of course, SIRENs were signed to save issuers mo not to make individuals r Says Gerald Guild, fixed come manager at Adv "The only way you w like it is if the company and you're a bondholder stead of a stockholder." T may be extreme. But g bond expert to do some m before you decide whet SIRENs sound a warning serenade. *Joan Wa*

THE FIRST SIREN

ISSUER	Horace Mann Educators
DUE 1999	**COUPONS** 4%, 6.5%
CONVERSION PRICE	35
STOCK PRICE AS OF JAN. 26	27½
AVERAGE YIELD ON 10-YEAR CORPORATE BONDS	7%

DATA: FIRST BOSTON CORP

You Don't Go Back To Basics. You Take Them Forward.

There is a curious shift in business these days, "back to the basics." And it seems as if the sophisticated fast-trackers of the '80s have been transformed into the business fundamentalists of the '90s.

Nice try, guys. The simple truth is, basics are something you start with and take forward. Not retreat to.

Over the past 11 years we've become a financial services company with $15 billion in assets under management. We've grown by embracing the ageless basics of common sense and simplicity and bringing them into a new age of technology and management.

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The basics. By taking them forward, they've taken us forward. To where we are today, to where we'll be tomorrow.

Her place in America's military history deserves more than a place in a scrapbook

For too long, the only reminders of the contributions of American servicewomen have been photos stored away in boxes and dresser drawers.

Now, Congress has authorized a memorial to Women in Military Service, to be built at the gateway to Arlington National Cemetery. It will honor our mothers, daughters and sisters who have served America from the Revolutionary War to Desert Storm. What's more, the names of all military women—active duty, Reserve, National Guard and veterans, living and deceased—are eligible for registration at the Memorial.

While Congress has authorized the Memorial, it must be built with non-Federal funds. Call toll-free to preserve a plac in history and help build the Memorial.

America's servicewomen have always answered the call. Call now to honor them.

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Electronics

NOW, A SOUND SYSTEM FOR LIFE'S BUMPS AND BOUNCES

s if life isn't confusing enough, Sony just dropped another audio at on the music market. time, it's the MiniDisc, rtable digital recording m that offers high-quality d on a laser-read disk 2.5 s across. MiniDisc gives ers the same ability as act-disk players to call ny cut on a recording in- ly, and the disks hold the amount of music as CDs. they have the added ad- age of being able to d. And, unlike CDs, the l disks don't skip the player is jos- making them a r choice for car portable stereos. t the MiniDisc has jor drawback: It is npatible with eve- her music format own. So you still separate players our records, cas- s, and CDs. For reason alone, if e looking for near- uality in a system records, Philips' digital compact tte (DCC) might be practical (BW— 30). A DCC home plays standard an- cassettes as well igital ones, and s says it'll start shipping table version of DCC in all. So if you feel bad all those LPs you never anymore, at least you have to kiss your cas- s good-bye, too.

IUM PRICES. Sony argues such compatibility is not important, since tape, its tendency to break, or stretch, will probably atmoded by the end of the decade. "We think it's more important to offer the state of the art going forward, rather than backward compatibility," says Paul Foschino, director of new-technology marketing for Sony Corp. of America. Sony insists that MiniDiscs are not meant to replace CDs. Since the latter still have slightly better sound quality, you can continue to play them in your audio system at home and save MiniDisc for the road. "We are answering a need for a cassette replacement," says Foschino.

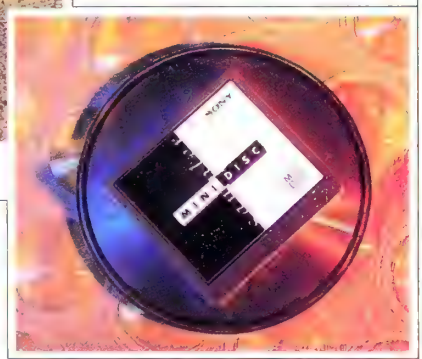
Whichever new format suits you, you'll be paying a hefty premium to own it this early in the game. A portable MiniDisc machine that just plays music costs $550, the same as the planned DCC portable model. A MiniDisc unit that can both record and play back runs $750—a bit less than a DCC home deck but substantially more than the $50 or so shelled out for most portable cassette players. Sony expects the price of the player to follow the same trend as that of other consumer electronic products: The more sold, the cheaper the product gets. The smaller disk, however, won't necessarily mean smaller prices. A prerecorded MiniDisc lists for $15.98, the same as a CD, while a 60-minute blank disk costs $13.99.

To prevent skipping in portable MiniDisc models, Sony developed a technique called shock-resistant memory. The music, instead of being transmitted directly to the listener, goes into a buffer that can hold up to 10 seconds of sound. So it doesn't matter if the player is jostled. The stored music will flow uninterrupted while the laser beam resumes tracking. The skips are eliminated from the sound in the buffer. No standard CD players have this ability.

Like DCC units, MiniDisc machines have a window that shows a readout of the album and selection being played, including any title you decide to give your own home recording. They also display the date and time you made the recording. And the disks come with a protective case that slides into the player, so there are no worries about ruining unshielded disks that are carelessly handled. The portable player is about the same size as a Sony Walkman and weighs 1½ pounds.

TONE KILLER. To get 74 minutes of music on a disk almost half the size of a CD, Sony compresses the data by eliminating tones above and below the range audible to the human ear. The technique does result in a "subtle difference in sound," Foschino says. On the other hand, the MiniDisc records. But in an effort to combat piracy, you can only make one digital recording per disk. If you try to copy the copy or rerecord on the same disk, subsequent versions will have analog sound.

Sony has licensed the MiniDisc technology to several other manufacturers, including Sharp and Sanyo Electric, both of which plan to introduce portable players later this year. And Sony says it will soon have a $980 car-stereo model. Approximately 300 albums have been released on MiniDisc, and about 20 new releases a month are planned. So if this format intrigues you, start clearing out more storage space in your music library. *Catherine Arnst*



NOT ONLY IS ITS DISK TINIER THAN A CD (RIGHT) BUT THIS MINIDISC MODEL IS ABLE TO RECORD—AND YOU'LL NEVER HEAR IT SKIP

TODD HAIMAN (2)

Worth Noting

FARE CUTS. Time is run- out to file a claim in the million airline antitrust ement (BW—Aug. 31). yone who has flown on airlines through 34 hubs Jan. 1, 1988, to June 30, is eligible for reductions ure fares. Write Airlines rust Litigation, P. O. Box 267, Pennsauken, N. J. 08110-0267. The deadline is Mar. 31.

■ **ANIMATED ANATOMY.** *The Mayo Clinic Family Health Book*, which provides information on more than 1,000 diseases and disorders, is now available in CD-ROM form from Sony Electronic Publishing Co. The disk includes 90 minutes of audio plus 45 animated illustrations. It's sold at software stores for about $100.

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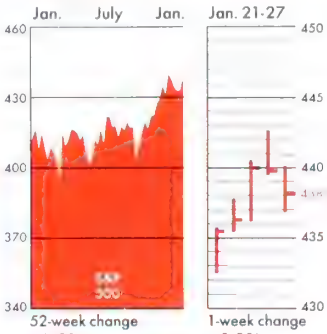
Yankee Group Europ

vestment Figures of the Week

ENTARY

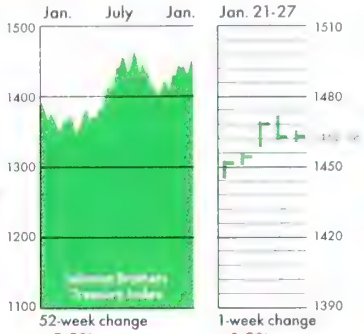
ors responded favorably to ws that the Administration riously considering an ener- to cut the federal deficit o issues were strong, espe- autos. Bonds, of course, n a tear, with rates on the ir Treasury hitting a six-year hort rates also tumbled, and ld on a 90-day bill fell be- . Lower interest rates in sent London stocks to all- ghs. But the prospect of a t in Japan was unable to re- e almost comatose Nikkei.

STOCKS



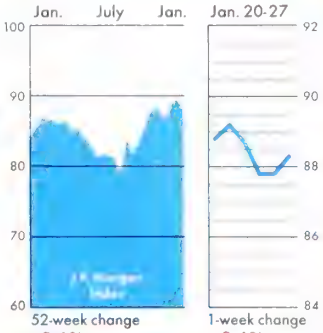
52-week change +6.8% | 1-week change +1.1%

BONDS



52-week change +5.3% | 1-week change +1.0%

THE DOLLAR



52-week change +5.6% | 1-week change −0.6%

RKET ANALYSIS

TOCKS	Latest	% change Week	52-week
ONES INDUSTRIALS	3291.4	1.5	2.1
E COMPANIES (S&P MidCap Index)	162.2	0.4	9.3
COMPANIES (Russell 2000)	228.0	0.9	11.8
MPANIES (Russell 3000)	251.7	0.8	8.1

GN STOCKS	Latest	% change (local currency) Week	52-week
N (FINANCIAL TIMES 100)	2832.5	3.0	11.2
(NIKKEI INDEX)	16,509.7	0.0	−22.7
TO (TSE COMPOSITE)	3311.6	0.7	−8.0

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	2.97%	3.06%	3.92%
30-YEAR TREASURY BOND YIELD	7.25%	7.32%	7.76%
S&P 500 DIVIDEND YIELD	2.81%	2.90%	2.94%
S&P 500 PRICE/EARNINGS RATIO	21.0	19.9	23.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	423.7	422.8	Positive
Stocks above 26-week moving average	71.7%	67.1%	Neutral
Speculative sentiment: Put/call ratio	0.34	0.33	Neutral
Insider sentiment: Vickers sell/buy ratio	2.63	3.29	Negative

USTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

WEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
ICONDUCTORS	19.7	63.1	INTEL	26.6	83.4	114 3/8
HINE TOOLS	16.8	42.7	CINCINNATI MILACRON	21.7	27.6	19 5/8
NGS AND LOANS	16.0	10.9	GREAT WESTERN FINANCIAL	20.8	2.7	18 7/8
OMOBILES	15.8	45.7	CHRYSLER	22.1	196.3	40
NSE ELECTRONICS	11.8	19.0	LORAL	15.9	49.5	53 5/8

WEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
RSIFIED HEALTH CARE	−11.3	−20.1	JOHNSON & JOHNSON	−13.8	−18.6	43 5/8
GS	−11.2	−24.5	PFIZER	−12.0	−14.4	65 1/8
TH CARE SERVICES	−7.1	−4.5	AMGEN	−11.1	−9.3	63 3/4
G CHAINS	−6.4	1.1	WALGREEN	−9.1	3.2	39 7/8
ACCO	−6.2	−5.1	AMERICAN BRANDS	−11.8	−20.7	36 3/8

TUAL FUNDS

MORNINGSTAR INC

RS

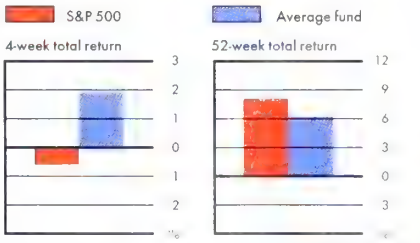
ek total return	%
DMAN OCEANOGRAPHIC TECHNOLOGY	12.9
N HANCOCK FREEDOM GLOBAL TECH.	10.5
LITY SELECT SOFTWARE & COMPUTER	10.5

total return	%
LITY SELECT SAVINGS & LOAN	56.6
N HANCOCK FREEDOM REGIONAL BANK B	48.3
LITY SELECT REGIONAL BANKS	46.7

LAGGARDS

Four-week total return	%
MONITREND GOLD	−13.7
PILGRIM CORPORATE UTILITIES	−8.8
VANGUARD INTL. EQUITY INDEX PACIFIC	−7.0

52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−62.9
UNITED SERVICES GOLD SHARES	−54.9
MONITREND GOLD	−42.7



ATIVE PORTFOLIOS

DATA RESOURCES INC

amounts
ent the present
of $10,000
d one year ago
portfolio

ages indicate
y total returns

Treasury bonds	U.S. stocks	Money market fund	Foreign stocks	Gold
$11,426	$10,918	$10,275	$9,590	$9,334
+0.79%	+1.11%	+0.05%	+0.88%	+0.84%

on this page are as of market close Wednesday, Jan. 27, 1993, unless otherwise indicated groups include S&P 500 companies only; performance and share prices are as of market close Jan. 26. Mutual fund returns are as of Jan. 22. Relative portfolios are valued as of Jan 26. A more detailed explanation of this page is available on request

LESSONS FROM THE BOARDROOM DRAMAS

American Express, IBM, and Westinghouse Electric. In just one week, boardroom turmoil has battered the chief executives of three corporate household names. Two, IBM's John F. Akers and Westinghouse's Paul E. Lego, were ousted, while James D. Robinson III of American Express still seems to share power, in an outcome that's muddied and confusing.

The shock of such drama is surpassed only by the wonder that it took so long to unfold. Where were the directors during the years when all three companies were losing money and market share? IBM stock alone tumbled by $23 billion in total market value between the summer and fall, a sum equivalent to the Clinton Administration's entire economic stimulus plan, but still the board stuck with Akers.

The answer lies in the composition of corporate boards. Too often, former chairmen remain as board members and backseat drivers, thus preventing strong remedial measures that might require undoing their old empires. This was the case at IBM, where three former CEOs peered over Akers' shoulder. In addition, combining the roles of chairman and CEO—thus opening the way for the CEO to pack the board and its committees—works against board intervention. And failure to appoint outside directors who have independent knowledge of the industry is yet another cause for a board's inertness.

It's clear what must be done. It took General Motors Corp.'s independent board members too long to act. But once they did, they cleaned house quickly and efficiently. An outside director was made acting chairman, and an experienced GMer was made CEO and given a year to shape up the company. What was good for GM would also be good for IBM, American Express, Westinghouse Electric, and any other corporation in dire need of change.

THE SHORT ANSWER IS HIKE THE GASOLINE TAX

Now that Treasury Secretary Lloyd M. Bentsen has put the issue into play, we repeat our advocacy of a new federal energy tax—if it's done right. This magazine has long argued for raising the national gasoline tax substantially—by, say, 50¢ a gallon, phased in over five years in 10¢ annual increments. Of the various potential energy taxes being mulled over by the Clinton Administration, we still consider such a tax the best choice by far (page 28).

A gasoline tax would be a fast and simple revenue-raiser that would immediately start pumping $1 billion into federal coffers for each penny tax hike. It would be less inflationary than a broad energy tax, which would affect the entire economy, and it would not entail the delays, red tape, or costly bureaucracy of a carbon or oil-imports tax. What's more, higher prices would help conserve energy and protect the environment, to say nothing of reducing our strategically n gerous dependence on imported oil.

The main objections, of course, come from consum who will pay more at the pump. But U. S. drivers h long had an easy ride from the feds, and the real cost of oline is lower than it was in 1978. The U. S., on average, es gasoline at just 35¢ per gallon, with only 14¢ of that g to the federal government and the rest to states and mu ipalities. By contrast, Japan levies a retail tax of $1.75 a lon, and Germany $2.37. Meanwhile, auto fuel efficiency gone up, reducing significantly the cost of driving. fears that a gas tax will hit some regions harder than ot are largely unfounded: We reckon a 20¢ tax increase w cost those in the wide-open spaces of the West only more a year, on average, than residents of the Northea

To avoid the inevitable consumer backlash, Clinton is sidering a small tax, if any. But we urge him to act bo The 10¢ to 20¢ tax currently being bruited about in Wash ton would not be enough to promote conservation—o put much of a dent in the yawning annual deficit of $300 lion-plus. Instead, he should sell the tax to consumers o strengths: a quick deficit fix that will, at a stroke, discou gasoline consumption and reap environmental benefits.

VIRTUAL CORPORATIONS: FAST AND FOCUSED

It's one of those catch phrases that sound suspiciously the latest reverie to come wafting out of some B-sc guru's hookah. But the fact is that the virtual corpora is a powerful idea that offers some promising new appro es to the increasingly tough facts of life in the global mar place (page 98). With product-development cycles spee up, many companies simply can't move fast enough to advantage of transitory market opportunities. Sure, large porations can build new plants and lay on engineers, countants, and marketers. But by the time they've done the window has closed. Nimbler, small companies often the clout or capabilities to respond.

To join in a virtual corporation, a company decides to f on the thing it does best, whether it's design, manufactu marketing, or any of the other functions necessary to b a product to market. It then forges temporary links with er companies, with each one bringing to the combina its own special ability. Such a "best of everything" orga tion could be a world-class competitor, with the speed, muscle, and the leading-edge technology to pounce on briefest of opportunities.

One big U. S. industry already operates this way. since the collapse of the old Hollywood studio system, mo have been made by virtual corporations—assemblages o dependent talents that come together for a specific pro and then go their separate ways again. Maybe it's no co dence that the movie business is one of our biggest exp success stories. As today's clumsy corporate titans strug and fail—to adapt to ever-faster change, maybe they w do well to ponder both the fate of the old studios and promise of what replaced them.

PARK AVENUE

ULTRA DRIVING

Slip into the driver's seat. Touch a switch and Ultra's memory seat recalls your preset position for maximum comfort. Seat belt fastened? Now, turn the key.

Power on demand.

Listen to the confident hum of Ultra's supercharged engine. Step on the accelerator and Ultra delivers 205 horsepower on demand to move you into traffic with authority. With a zero to 60 time of just 7.5 seconds, you'll pass a number of expensive competitors on the way, including Lexus LS400.*

Ultra. The ultimate Buick.

One good turn.

Aim Ultra into a sweeping turn and the variable assist power steering adjusts electronically to your speed for pinpoint control. Available traction control gives you better grip, while the available Gran Touring suspension provides even firmer handling. Standard anti-lock brakes and driver air bag add an extra measure of safety.

Quiet inside.

Ultra driving is quiet driving. In fact, Ultra is quieter than cars that cost substantially more, including Lincoln Continental.*

The next step toward Ultra driving is a test drive at your Buick dealer. Or, if you wish, call 1-800-4A-Buick now for more information.

*Comparison based on 1992 models and MSRP.

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ESS WEEK
February 15

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DS THE NEW BATTLES FOR CORPORATE CONTROL

STRATEGIES ▶PHILIP MORRIS ▶AMOCO ▶GULFSTREAM

TAXES THE UNDERGROUND ECONOMY IS BOOMING

SMALL COMPANY FUNDS STILL SHINE

GOING GLOBAL MAKES SENSE AGAIN

HIGH RETURNS IN HIGH TECH

THE MOST GAIN FOR THE LEAST RISK

THE BEST MUTUAL FUNDS

OUR ANNUAL RATINGS

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YOU HEAR A GROWL.

ONLY IT'S NOT COMING FROM YOUR STOMACI

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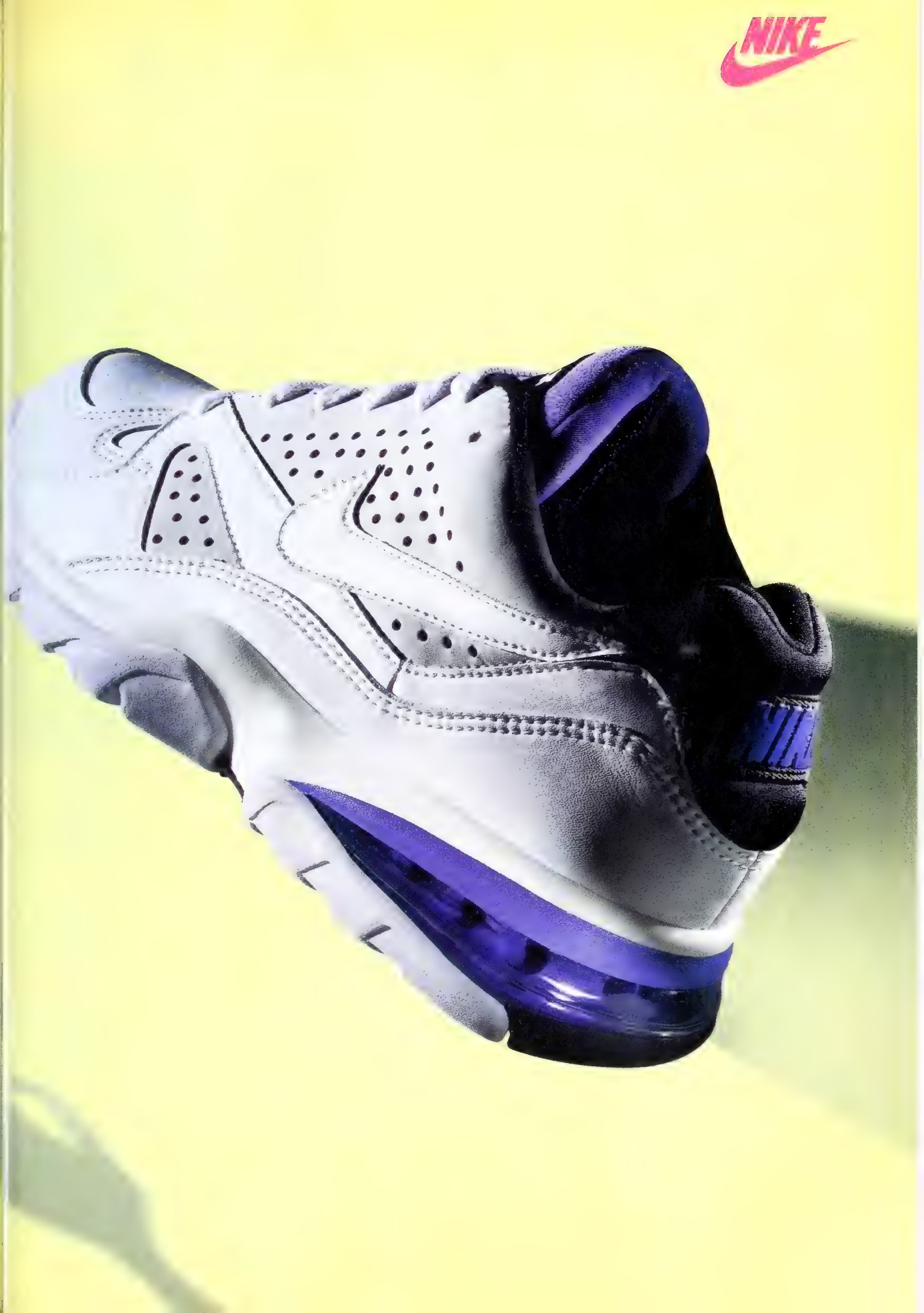
I mean train and run and hit
a home
run
faster
and feel like a kid.
How do I train and still have knees?
With advanced technology!

It's the hot new Air Max shoe
With a third more air, it's true!
All that light and whoosh air
Cushions my feet everywhere.

In Air Max my feet feel good
not like chunks
of nerveless wood.
So I can train
and I can run,
I may be small
but I have big fun!


NIKE

NUMBER 3305 BusinessWeek FEBRUARY 15

WHERE THE ELECTRICITY WAS: UTILITIES FUNDS NABBED 5 OF THE TOP 44 SPOTS IN BUSINESS WEEK'S 1992 MUTUAL FUND SCOREBOARD

Cover Story

68 THE BEST MUTUAL FUNDS
New money poured into equity funds in 1992, and though investors didn't see anywhere near 1991's dazzling returns, most can't complain. And with BUSINESS WEEK's Mutual Fund Scoreboard, you have everything you need to pick your best bets for '93. Because these proprietary rankings are adjusted for risk, even a volatile biotechnology fund can be measured against a staid income fund. One lesson from last year's winners: Think small

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Shareholder pressure, recession, and global-market demands are causing the fall of many corporate chieftains

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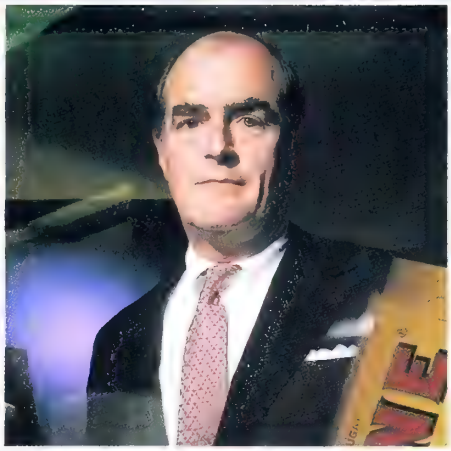

REQUIEM FOR YESTERDAY'S CEO: ROBINSON, AKERS, LEGO—ALL ARE GONE IN PART BECAUSE OF A RELIANCE ON HIERARCHIES THAT COULDN'T KEEP UP WITH THE PACE OF CHANGE

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BUSINESS OUTLOOK
The expansion is gaining steam—and even chary consumers may not slow the momentum

THE UNDERGROUND ECONOMY
Off-the-books business provides jobs but robs the Treasury of billions

Government

WASHINGTON OUTLOOK
Clinton has made his share of rookie mistakes in dealing with Capitol Hill, and the fumbles will cost him

Marketing

NOT-SO-GOOD TIMES
Philip Morris is used to double-digit growth, but now it's having to make do with a little less

A MAN FOR LAST SEASON?
Philip Morris lobbyist Craig Fuller has a rapidly yellowing Rolodex

Finance

QUESTION OF MATURITY
Clinton advisers are considering a switch from long- to short-term debt, but that's no panacea for the deficit

SHEARSON: CALLING MR. FIX-IT
Among its woes: Internal schisms, a credit-rating review—and no CEO

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Free trade, yes, but fairness first
A national blueprint for health care
Hard choices for Europe

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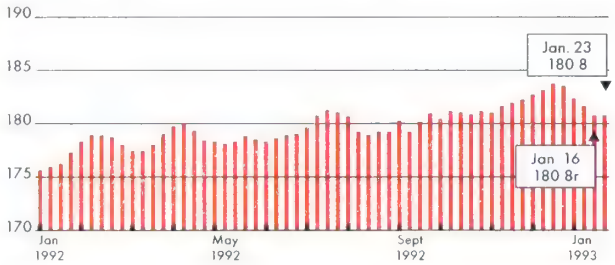
BusinessWeek Index

PRODUCTION

Change from last week: 0.0%
Change from last year: 1.9%

1967=100 (four-week moving average)

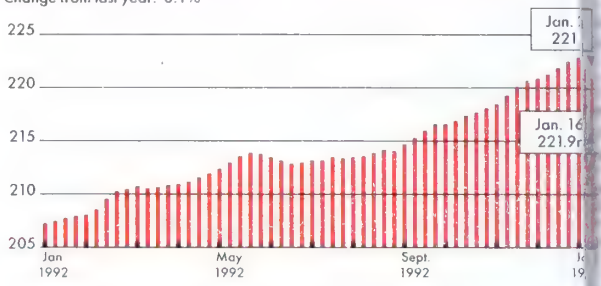


The production index held steady during the week ended Jan. 23. After seasonal adjustment, output at crude-oil refineries rose, as did production of coal and lumber. Rail-freight traffic also increased. Production of both autos and trucks dropped, as did electric power output. Steel production was unchanged, while data for paper and paperboard were not available. Before calculation of the four-week average, the index dipped from 182 to 181.4

BW production index copyright 1993 by McGraw-Hill Inc

LEADING

Change from last week: −0.4%
Change from last year: 6.1%



The leading index fell during the week ended Jan. 23, as the index cont to drop in the new year. In the latest week, declines in the growth rates of M2 real estate loans offset the positive signs of higher stock prices, lower bond y fewer business failures, and a faster growth rate in materials prices. Be calculation of the four-week moving average, the index fell to 220.1, from 221 the previous week.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (1/30) thous. of net tons	1,761	1,772#	3.4
AUTOS (1/30) units	131,038	106,940r#	21.0
TRUCKS (1/30) units	97,224	85,167r#	19.7
ELECTRIC POWER (1/30) millions of kilowatt-hours	59,575	59,484#	4.0
CRUDE-OIL REFINING (1/30) thous. of bbl./day	13,019	13,090#	4.8
COAL (1/23) thous. of net tons	18,971#	17,977	−3.7
PAPERBOARD (1/23) thous. of tons	NA#	NA	NA
PAPER (1/23) thous. of tons	NA#	NA	NA
LUMBER (1/23) millions of ft.	457.9#	446.0	−7.4
RAIL FREIGHT (1/23) billions of ton-miles	21.0#	20.5	3.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (2/3)	124	124	125
GERMAN MARK (2/3)	1.65	1.58	1.58
BRITISH POUND (2/3)	1.43	1.51	1.82
FRENCH FRANC (2/3)	5.59	5.35	5.39
CANADIAN DOLLAR (2/3)	1.27	1.27	1.18
SWISS FRANC (2/3)	1.53	1.46	1.41
MEXICAN PESO (2/3)[3]	3.080	3.079	3.080

Sources: Major New York banks. Currencies expressed in units per U.S dollar, except for British pound expressed in dollars

PRICES

	Latest week	Week ago	% Change year ago
GOLD (2/3) $/troy oz	328.200	330.600	−7.4
STEEL SCRAP (2/2) #1 heavy, $/ton	103.50	99.50	15.6
FOODSTUFFS (2/1) index, 1967=100	199.6	201.3	−2.3
COPPER (1/30) ¢/lb.	104.0	103.0	1.2
ALUMINUM (1/30) ¢/lb.	56.1	56.5	−1.6
WHEAT (1/30) #2 hard, $/bu.	3 97	4 08	−12.7
COTTON (1/30) strict low middling 1-1/16 in., ¢/lb.	52.88	54.99	7.1

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, *Metals Week*, Kansas City market, Memphis market

LEADING INDICATORS

	Latest week	Week ago	% Ch year
STOCK PRICES (1/29) S&P 500	439.10	435.59	
CORPORATE BOND YIELD, Aaa (1/29)	7.84%	7.90%	
INDUSTRIAL MATERIALS PRICES (1/29)	98.8	98.5	
BUSINESS FAILURES (1/22)	357	427	
REAL ESTATE LOANS (1/20) billions	$401.9	$404.0r	
MONEY SUPPLY, M2 (1/18) billions	$3,441.4	$3,448.0r	
INITIAL CLAIMS, UNEMPLOYMENT (1/16) thous.	364	362	

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally a data on business failures and real estate loans

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch year
12 LEADING INDICATORS COMPOSITE (Dec.) index	153.0	150.1r	
NEW HOME SALES (Dec.) annual rate. thous	656	617	
CONSTR. SPENDING (Dec.) annual rate, billions	$434.4	$434.3r	
PERSONAL INCOME (Dec.) annual rate, billions	$5,187.7	$5,137.5r	

Sources: Commerce Dept., Census Bureau, BLS

MONETARY INDICATORS

	Latest week	Week ago	% Ch year
MONEY SUPPLY, M1 (1/18)	$1,031.6	$1,034.4r	
BANKS' BUSINESS LOANS (1/20)	277.8	275.6r	
FREE RESERVES (1/20)	1,037r	1,112r	
NONFINANCIAL COMMERCIAL PAPER (1/20)	148.0	145.2	

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	
FEDERAL FUNDS (2/2)	3.18%	2.96%	4.
PRIME (2/3)	6.00	6.00	6
COMMERCIAL PAPER 3-MONTH (2/2)	3.21	3.19	4.
CERTIFICATES OF DEPOSIT 3-MONTH (2/3)	3.16	3.14	4.
EURODOLLAR 3-MONTH (1/29)	3.18	3.16	4.

Sources: Federal Reserve Board, First Boston

#Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipm
1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Editor's Memo

FAREWELL AND HAIL

It was Oct. 15, 1956. The Dow Jones industrial average closed at 498.4. The Dodgers were still in Brooklyn. Dwight Eisenhower was running for reelection against Adlai Stevenson. And Bill Clinton was just 10 years old.

On that day, 28-year-old Jack Dierdorff started work at BUSINESS WEEK as a cub on the copy desk. He made his mark quickly and soon began climbing the ranks—as a reporter in the Chicago bureau, a senior editor in charge of our main news section, and finally as managing editor. He has performed that job with distinction for 15 years. This week, at age 65, Jack is retiring, ending a remarkable 36-year career with the magazine. In one way or another, he has been associated with well over half the issues ever published by BUSINESS WEEK.

Jack has left an indelible mark. Over the years, he has helped countless writers shape their stories and polish their prose. He has been the arbiter of good taste, the decider of great moral issues, and the dispenser of wisdom in matters great and small. He was my partner and my confidant. I shall miss greatly his professionalism and his friendship.

Fortunately, we are blessed with a worthy successor in Mark Morrison, who has the talent, experience, and judgment to be an outstanding managing editor. A graduate of the University of Texas, where he was editor of *The Daily Texan*, Mark spent 10 years in our bureau system—in Houston, Cleveland, and Chicago—before coming to New York headquarters in 1984 as senior editor in charge of corporate coverage. He was promoted to assistant managing editor in 1989. Mark, 44, and his wife Ellen, a medical writer, live in New Jersey with their two sons.

We are also delighted to welcome back Sarah Bartlett as an assistant managing editor, replacing Mark. Sarah, 37, was with us from 1983 to 1988 as a writer and editor in both the international business and finance departments, where her keen intelligence and dogged reporting made her one of our best. She then spent four years as a business and metropolitan reporter at *The New York Times*. In 1991, she wrote a finely detailed book on investment banker Kohlberg

PROSE PROS: DIERDORFF, MORRISON, BARTLETT

Kravis Roberts. The book, *The Money Machine*, was recently released in paperback.

Born in Buffalo, Sarah received her bachelor's and master's degrees at the University of Sussex in Brighton, England. She and her husband, John Petrarca, an architect, live in New York with their daughter.

To Jack Dierdorff, a fond farewell. And to Mark Morrison and Sarah Bartlett, our best wishes in these challenging new jobs.

Stephen B. Shepard

Editor-in-chief

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Readers Repor

A CAPITAL BUDGET IS NO LEGERDEMAIN

The Commentary by Karen Pe ("Beware of accounting magic tr Mr. Clinton," Economics, Jan. 18) ports neither its curious headline n strange last sentence: "For the fe government, the capital budget i idea whose time should never come

Separate capital budgets are use every major business in the U. S. state and local governments, and vir ly all foreign governments. It mak big difference whether an individual rows—runs a deficit—to gamble a the proceeds in Las Vegas or to b house or invest in his children's e tion. It is important to know wheth business is borrowing to cover opera losses or to invest in new plant equipment. Advocates of a separate tal budget for the federal governn with whom Mr. Clinton is appare sympathetic, are looking not for tr but accounting clarity and honesty we presume Mr. Clinton is as well.

Ms. Pennar presented my table "What a capital budget shows" pointed out correctly, even quoting that it makes clear that, at least 1991, the last full year for which na al income accounting data were a able, separating out capital expendit and including in the current or opera budget only depreciation charges w not in fact leave us with an opera budget in any less deficit. What "tri are there here?

The strange thing is that a good b my argument was ably set forth by Pennar in her article. What was it, old deficit paranoia or stubborn ad ence to conventional wisdom, that spired the offbeat headline and co sion to her commentary?

Robert Ei
Economics D
Northwestern Univer
Evanston

REALITY ON PATENTS: THE EARLY FILER GETS THE WORM

The article "American inventors reinventing themselves" (Scienc Technology, Jan. 18) deals with the ent rights of inventors under the firs invent vs. first-to-file system. In U. S., we are on the first-to-invent tem, so that the inventor need not to the Patent & Trademark Office moment the invention is made, beca rights are based on the date of in tion. However, the rest of the world long been on the first-to-file syst which means that whoever files the

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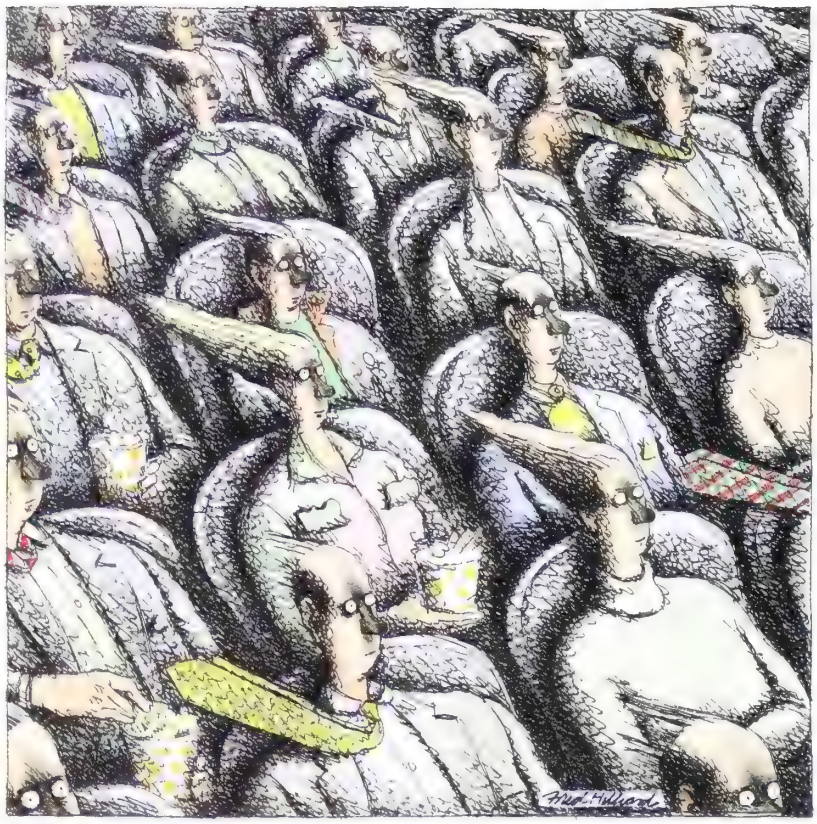

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Readers Report

CORRECTIONS & CLARIFICATIONS

The company that makes the Sn board, a model of skateboard (The new products, Jan. 11), is Snakeba USA in Palm Desert, Calif.

plication first is entitled to the p regardless of when the invention made. Consequently, American inve and industry must, like it or not, pl the first-to-file rule if they have a tention of obtaining foreign patent

George H. Sp
Patent atto
Spencer, Frank & Schr
Washin

I'd like to lend perspective to th bate on U.S. patent law and quote: "This issue threatens not jus vate inventors, but the entire Ame economy." U.S. Patent & Trade statistics for fiscal 1988-1991 show the number of inventors who were to invent but second to file—but won patents by virtue of the fir invent system—averaged 55 a year

Using the quoted ratio of indepe to corporate inventors for 1991—1 to 35,029—suggests that, of the 5 ventors saved by the first-to-invent tem, about 21 were independent in tors. And as many patentees are av only a fraction—2% to 20%—of in tions become significant commerc Therefore, statistics would suggest a change in the U.S. patent law fr first-to-invent to a first-to-file sy would have an adverse economic e on an average of only one to four pendent inventors each year. Meanw an additional 150 or so inventors th into complex legal proceedings to p they were first to invent as well as to file would save thousands of do each in legal costs, as well as gov ment administrative costs.

A change would be unfortunate the one to four independent inver who would lose if the system is chan but hardly the cataclysm that the rh ric in this debate suggests.

Peter V. D. W
General atto
AT&T Bell Laborat
Murray Hill,

THE SWISS PEOPLE'S RIGHTS ARE AT STAKE

Switzerland's historic independen cherished not only by right-w groups ("Rugged terrain ahead for S zerland," International Business, Dec This independence has enabled Swi

to prosper while surrounding coun- were riddled by war, social unrest, economic woes.

hat your reporters fail to mention is the European Economic Area (EEA) ·d is not simply an economic free- agreement. It is, rather, a political y whose implications are the limita- of Swiss popular rights, such as the ·endum.

g business does not need this accord ar down trade barriers, since they already present in other countries thus insulated from any discrimina- The real design is to lower the sig- ntly higher Swiss salaries to a Eu- an level.

liticians love this agreement be- it would finally allow them to l much more power than in the cur- system, which is tightly monitored opular vote.

Andy Abramovici
Nyon, Switzerland

K RULES ARE HOLDING BACK IALL-BUSINESS REBOUND

ith respect to "In 1993, fewer businesses may go belly-up" nomic Trends, Jan. 25), this may been a valid interpretation some ago, but in the current climate, is no longer the case. Recent bank- egulations are making it increasing- ifficult for banks to support the ler business.

·st, banks are required to employ stringent creditworthiness stan- s than they used—as recently as or four years ago.

cond, when a bank's loan portfolio ·viewed by regulators, loans that perfectly acceptable when made now being downgraded.

rthermore, loan officers who make that require reserves are not ed among the "top of the class" at y-review time. In fact, too many re- ed loans may lead to the lending er becoming unemployed. This re- in already-cautious officers becom- ·ven more cautious.

e overall impact on the smaller ness is reduced access to borrowing that business is looking for sup- critical to helping it accelerate pro- on and sales to take advantage of ·ecovery. It would not be unreason- to see an increase in small-business res, as the economy works through ·arly part of the recovery.

Ed Sward
New York

s to the Editor should be sent to Readers t, Business Week, 1221 Avenue of the Ameri- lew York, N. Y. 10020. Fax: (212) 512-4464, 12-7960, Intl. 4998204. All letters must in- an address and daytime and evening tele- numbers. We reserve the right to edit letters arity and space.

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COMPUTER WARS: HOW THE WEST CAN WIN IN A POST-IBM WORLD
By Charles H. Ferguson and Charles R. Morris
Times Books • 272pp • $23

THE BIG BLUE WRITING ON THE WALL

Charles H. Ferguson and Charles R. Morris couldn't have wished for better timing. Just as their *Computer Wars: How the West Can Win in a Post-IBM World* hits the bookstores, IBM hits the skids—big time.

Before John F. Akers announced a plan to seek his replacement as CEO in the next 90 days, the authors had been publicizing the book—quite successfully—by circulating a forceful letter urging IBM's sleepy board to wake up and smell the coffee. Now, with Akers on his way out and Big Blue's future looking more treacherous by the day, *Computer Wars* will probably be seen as the book to read about IBM's current troubles.

The book would probably have drawn considerable attention in any case. It presents a cogent, technically savvy history of IBM's business since the mid-1960s, then takes off from that history to analyze how U. S. computer companies should compete in the future.

With IBM in a shambles, the history is especially fascinating. Interviews with numerous former and current IBM managers, most anonymous, buttress the authors' argument that IBM's top executives lost their way—or, more precisely, their nerve—as early as the mid-1970s. Today's disaster, they write, is rooted in the management of Chairmen Frank Cary and John Opel. They presided over the company's monopolistic boom years and launched IBM into a sprawling expansion, then turned over the helm to Akers, who has spent most of his tenure shrinking and reorganizing to cope with the technological and market changes that have crippled IBM's growth.

The boom began with the fabulous success of the System/360 mainfr computer family, which swept the ket for IBM in the mid-1960s. Here. for the first time, is the story of with a $5 billion investment, IBM the company" on the new machi whose main appeal was a common a tecture, or technical blueprint, that de facto standard controlled by IBM

Almost unknown, however, is the ry of how in the early 1970s, ever the 360 dominated the mainframe ket, IBM secretly began work on an tirely new, more powerful design. C named Future System, or F/S, project yielded many technical br throughs but nothing immediately r ketable. Outsiders saw little sign of failure—it didn't hurt IBM's numbe but the mainframe division was so tracted that it missed an entire gen tion of development on the 360, givi leg up to makers of IBM mainfra clones. Within IBM, Ferguson and Mo say, the reverberations are still be felt. "F/S was IBM's own quiet Vietna they write. After F/S, "a status mindset" took over. Instead of plung forward with new technologies, ex tives in Armonk "became dead weig spinners of grand but harmless visio

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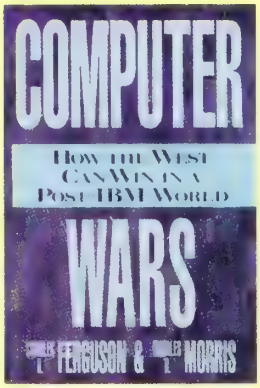
d IBM "cannibalized," or replaced,
ging mainframe line with a faster,
based line, the book argues, and
used RISC to revamp the market-
ng IBM PC, Big Blue would probably
great shape today. It could have
control of two key system architec-
, which Ferguson and Morris con-
is the only strategy for long-term
ability. IBM controlled the 360's ar-
cture and reaped great benefits.
the IBM PC, until, as the book ex-

The humbling of IBM is a backdrop for the authors' theory of how to compete in computers



plores in fascinating detail, IBM gave up control to Microsoft Inc. and Intel Corp.

The account's insider feel will especially appeal to readers who follow the industry. It is marred, however, by a one-sided quality: Clearly, the authors have listened mainly to disgruntled IBM technical people, who come off as very anti-management. It would have been useful to hear what the business side had to say, but IBM management has declined to comment on the book's thesis.

Also, in crediting IBM's early sweep of the data processing market to forward thinking and superior products, the authors gloss over certain facts. The 360 was launched, for example, off the back of IBM's 95% share of the punch-card tabulating machine market. And IBM's triumphs weren't always what they seemed. A case in point: IBM effectively gave away entry-level 360 models to win the market.

But Ferguson and Morris don't claim to offer a definitive history; they're interested in using IBM's story to bolster their theory that establishing and controlling an architectural standard is the only way to compete in computers. U. S. companies, they suggest, should focus on technical vision and design, leaving mass-production to the Japanese. This discussion, though authoritative and knowledgeable, may be too technical and jargon-laden for many readers. And it brushes by the reality that few companies or individuals succeed in creating an architectural standard and that luck is often a factor.

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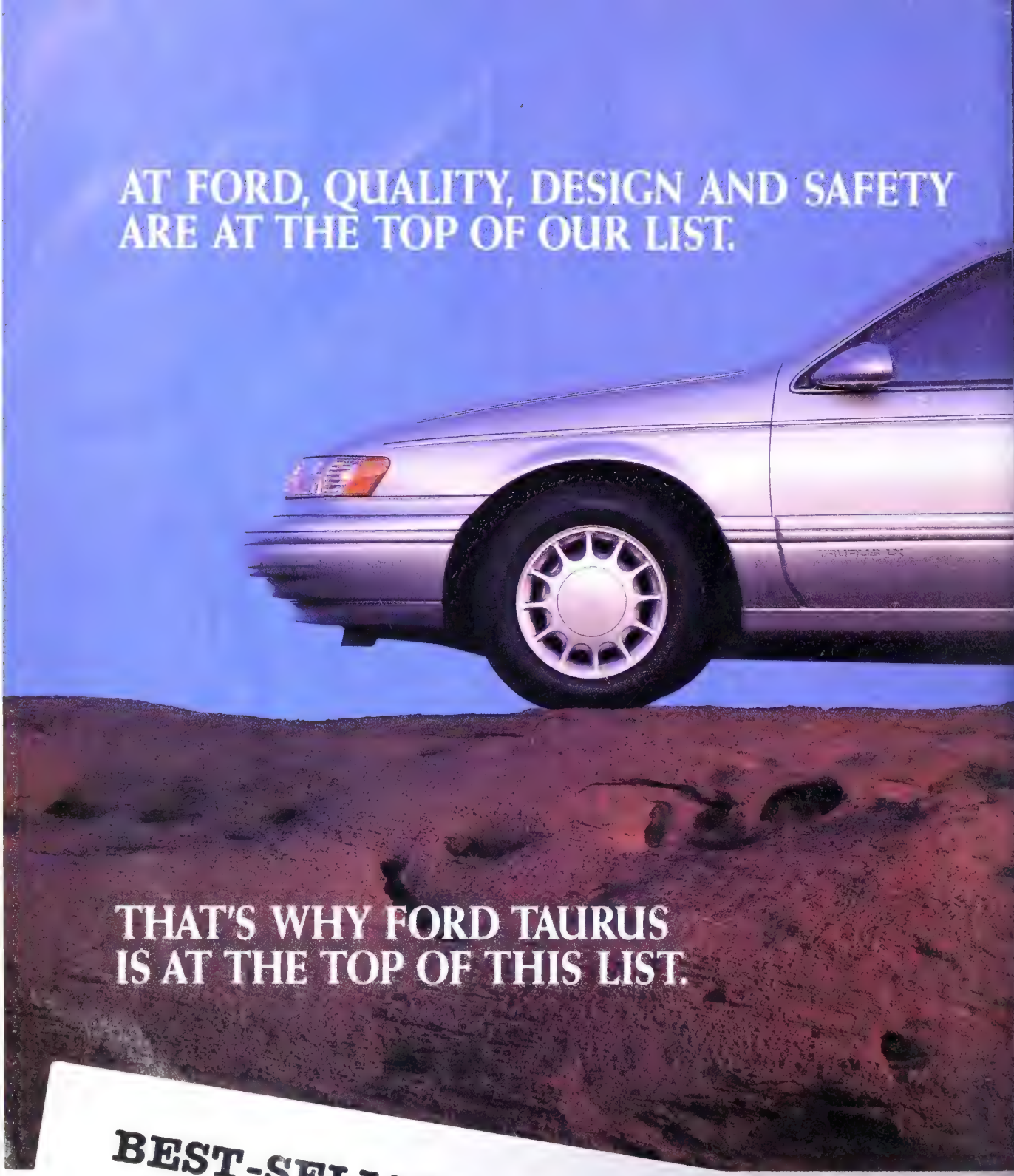

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tempted to explain IBM's phenomenal success. Still the best written, though it's limited in chronological scope, is William Rodger's *THINK*, published in 1969. *Computer Wars* launches the next wave in IBM literature, exploring the company's ruination. At least one other book about the humbling of IBM is already in the works. For now, however, Ferguson and Morris provide a compelling explanation of IBM's misery.

BY JOHN VERITY

Verity tracks information technology for BUSINESS WEEK.

BOOK BRIEFS

GATES
By Stephen Manes and Paul Andrews
Doubleday • 534pp • $25

HARD-BOILED 'SOFTIE'

Microsoft Chairman William H. Gates III displayed a business bent early on. At age 10, he negotiated a contract with his older sister giving him the right to use her baseball glove whenever he wanted. The cost: $5 "on acceptance of terms." Young Gates signed it "William H. Gates, Jr. Jr." and left a blank line at the bottom with the legend, "Witness sign here." Here was a mogul in the making.

Unfortunately, in *Gates: How Microsoft's Mogul Reinvented an Industry and Made Himself the Richest Man in America*, journalists Stephen Manes and Paul Andrews don't get much deeper than that in explaining what makes this billionaire tick. Gates remains an aloof, one-dimensional character who insists, screams, cajoles, and manipulates on his way to achieving his one big vision: a computer on every desk and in every home—all using Microsoft software.

On the other hand, if it's Microsoft you're interested in, this is the most complete and most colorful account yet of the meteoric rise of the nation's No. 1 personal computer software company. *Gates* recounts key events from Microsoft Corp.'s early days: How, despite the clash between Microsoft's T-shirted atmosphere and IBM's buttoned-down aura, Gates cemented a critical partnership by agreeing to Big Blue's wishes for extreme security and rigid deadlines. How, in 1985, Gates squelched Apple Computer Inc.'s grumbling about the similarity between Microsoft's Windows and Macintosh's software by telling Apple Chairman John Sculley, over s to back off or he would stop develo Mac products. How Microsoft took more and more of the market u in 1986, there were merger talk tween Microsoft and Lotus Develop Corp. Surprisingly, the failed deal c for Lotus founder Mitch Kapo be chairman; Gates, vice-chair Microsoft President Jon Shirley, p dent; and Jim Manzi, who is now L chief, as merely head of the applica division.

Gates includes many such gems though largely a retelling of thing ready known, it embellishes events provocative detail and puts them in text. Its greatest contribution may b depiction of Gates and his "Softies smart but not infallible. In early 198 instance, they rushed so to ship a product, Mac Word 3.0, that it hit shelves riddled with 700 bugs. Fixes new copies for 70,000 buyers cos million. But Gates, the book shows, learned from every error and respo each time by redoubling Microsoft' forts. What comes across most stro is the drive conveyed by Microsoft's official motto: "Get the business!"

BY KATHY REB

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SORRY, BILL—RAISING TAXES WON'T DENT THE DEFICIT

BY PAUL CRAIG ROBERTS

New taxes will wreck living standards, the economy, and the Democrats' future. Real deficit reduction begins with a basic fact: The economy must grow faster than the budget

The Clinton Administration is setting itself up for early failure. It is planning to raise taxes in the name of a lower deficit, and it won't work. Reagan and Bush tried to buy budget deals with tax increases, and each time the deficit rose. Now, the new Administration can't wait to commit the same folly.

The preelection champions of the middle class are now planning to balance the budget with middle-class sacrifices. Daniel P. Moynihan (D-N.Y.), the new Senate Finance Committee chairman, says: "An energy tax is in order." He also wants to raise income taxes. Office of Management & Budget bigwig Alice M. Rivlin wants an additional $1-per-gallon tax on gasoline. Some Democrats think the deficit can be solved by lowering the estate tax threshold from $600,000 to $200,000 and confiscating family farms and businesses.

These taxes will wreck people's living standards, the economy, and the Democrats' political fortunes. The question is whether the Republicans will prevent their own comeback by providing bipartisan cover.

Real deficit reduction must begin with a basic fact: Unless the economy grows faster than the government's budget, changes in taxes, spending, and interest rates cannot reduce the deficit. The next step is to identify the combination of tax and spending policies that causes the economy to grow faster than the budget.

No economic theory or empirical evidence supports the claim that higher taxes stimulate the economy. All economics textbooks describe a tax hike as contractionary and a tax cut as expansionary. The impact of spending is equally clear. Holding spending down frees revenues for deficit reduction, while higher spending uses up revenues.

MORAL QUANDARY. These facts lead inexorably to the following conclusions: A government that boosts the economy while spending less will reduce the deficit, and one that contracts the economy while spending more will increase it. Unfortunately, addressing these facts makes policymakers unpopular with congressional committees, federal agencies, and organized interests that prosper from increased spending.

Conceivably, a determined President could fight for deficit-reduction in the name of jobs and national solvency, but the dominant ideology of our time denies him the moral high ground. As long as liberals remain confident that more good is done in the public than in the private sector, cutting the budget will be deemed morally unacceptable.

No President wants to be judged morally opprobrious by the media and members of his own Cabinet who perceive so many unmet social needs. Few in government believe there is any such thing as a private nee can't be met. Policymakers generally ar vinced that people use much of their inc wastefully or destructively—for exampl oversize cars that are not fuel-efficient on fatty diets, tobacco, and alcohol.

If you view the world that way, then h taxes curtail wasteful and harmful pr spending and permit pressing social n such as drug rehabilitation and medical for the uninsured, to be met. Carried logical conclusion, this view means that th who needs braces has less claim on his ents' income than the public school te who needs a raise, the unemployed who job training, or the unwed mother who public assistance.

MATH MYTH. Boosting economic growth as many obstacles as curtailing govern growth. Fed Chairman Alan Greenspan inflation cannot accelerate while total inco workers remains level or grows slowl other words, holding down the growth o vate-sector income and employment i garded as a surefire anti-inflationary p Reflecting this view, the latest Fed "B Book"—a report on economic conditions piled by the 12 Fed districts—says that current economic recovery may not cr many new jobs or tax revenues.

Thus, any assault on budgetary red must overcome two powerful convictions. is that public-sector growth meets more serving needs than private-sector growth. other is that holding income down is the to hold prices down.

Whenever economic growth become issue, politicians promise to stimulate the omy with lower interest rates in exch for higher taxes. The stimulative mone policy is offset by the restrictive fiscal p and the economy goes nowhere. But spen continues unabated.

The government uses revenue forecas enhance its ability to achieve spending goa the expense of economic growth. These casts assume that higher taxes do not re economic activity. This assumption per policymakers to assign part of a tax incr to deficit-reduction and part to meeting cial needs. In the real world, the econom hurt by the taxes, and revenues fall sho the forecast. However, spending and the d rise.

The broad-based energy tax sought Democrats will lift costs and the meas rate of inflation—which may prompt more tightening. Look for Clintonomics to b back stagflation.

PAUL CRAIG ROBERTS IS CHAIRMAN OF THE INSTITUTE FOR POLITICAL ECONOMY IN WASHINGTON

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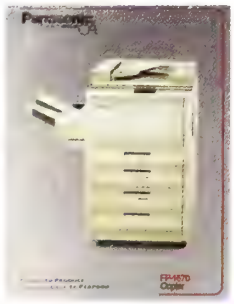

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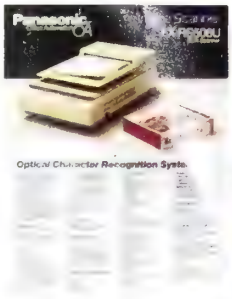

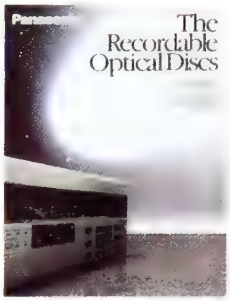

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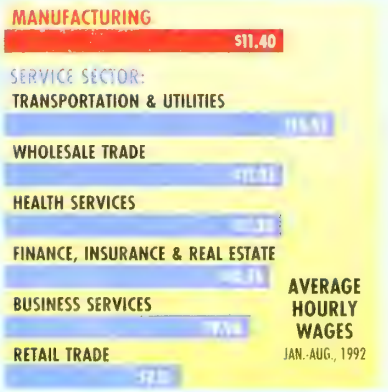
BY GENE KORETZ

SERVICE JOBS HAVE BEEN GETTING A BAD RAP

Ask most Americans about wages in the service-producing sector compared with factory wages, and they will probably say that the former are generally very low, while the latter are high. The truth, however, notes economist Alan Sinai of Boston Company Economic Advisors Inc., is that they are "far closer than most people imagine."

A recent analysis of wage data by Sinai and BCEA economist Zaharo Sofianou shows why. It indicates that over the past dozen years, a period in which pay growth was depressed, both service-sector wages and hourly compensation grew faster than manufacturing wages and compensation. From the first quarter of 1980 through the first quarter of 1992, for example, inflation-adjusted services wages grew 0.3% a year, while real manufacturing wages declined.

SERVICES AND FACTORY PAY: CLOSER THAN YOU THINK



DATA: BOSTON COMPANY ECONOMIC ADVISORS INC., BUREAU OF LABOR STATISTICS

Recent pay scales reflect these trends (chart). The two economists calculate that in 1992, average hourly wages in the service sector, which employs more than three and a half times as many workers as does the manufacturing sector, were only about 13% below the $11.40 per hour earned by factory workers. Indeed, they estimate that at least 23% of the private-sector labor force consists of service workers who earn as much as factory workers, a group whose ranks represent only 20% or so of the labor force.

The big exception to this positive picture is workers in retail trade, which accounts for about 29% of services employment. Low skill requirements and an abundant supply of workers helped restrain retail wage growth during the 1980s, lowering the average hourly retail wage as a percent of factory pay from about 68% to a little over 62%.

Apart from the low-paying retail sector, however, Sinai believes that service-sector wages will continue to rise relatively fast—although restructuring in service industries and cyclical factors may give factory wages an edge over the short run. "Services are where the action is," he says. "By the end of the 1990s, I expect the gap between average hourly wages in the nonretail service sector and manufacturing wages to be entirely eliminated."

CHINA TAKES OFF THE GLOVES IN THE TRADE ARENA

It has all the earmarks of a developing trade war. With more than 1.1 billion people, the world's largest pool of cheap labor, China is clearly a trade power to be reckoned with. And now, as economists Michael Taylor and Stephen S. Roach of Morgan Stanley & Co. note, "it is turning increasingly aggressive in its battle for global market share."

Just over a month ago, China devalued its currency, the renminbi, by 5.7% against the dollar, bringing its depreciation against the greenback to 37% since 1989. Helped by such actions, dollar prices of a wide range of Chinese exports, particularly such goods as chemicals, textiles, and electronic components, have recently been running below their year-earlier levels.

The upshot is that China has been able to make dramatic inroads into American markets, boosting its exports to the U. S. by nearly 40% during the third quarter of last year vs. the same period in 1991. In fact, it now exports more goods to the U. S. than do Malaysia, Thailand, Indonesia, and the Philippines combined.

All of this spells increasing problems for the fast-growing newly industrializing countries (NICs) of Southeast Asia, which are highly dependent on U. S. markets. Indeed, Taylor notes that China's aggressive pricing strategy is already affecting Hong Kong, Singapore, and Thailand, where dollar prices of many manufactured exports have begun to decline.

For the NICs, the potential effects of China's tough trade stance are clear: lower profit margins, a souring investment climate, and slower growth. For the U. S., it means low inflation and, potentially, greater import penetration.

THE SUPER BOWL GIVES L.A. A SUPER BOOST

The Dallas Cowboys weren't the ones to come away winners from Super Bowl. The hard-pressed Los geles area also received a much-ne economic boost. While the final won't be known for some time, an Mark Goebel of Standard & Poor's notes that the previous 10 Super B infused an average of about $110 lion into the host regions' econo Anticipating more than 100,000 o town visitors (the Rose Bowl's se capacity is 102,000), Los Angeles are ficials have predicted that the would produce as much as $180 m in extra revenues for the region.

The biggest benefit of hosting a S Bowl, however, notes Goebel, is p ably the chance "to showcase the re as a tourist and convention destin to hundreds of millions of TV view Los Angeles badly needed such e sure to erase its riot-tarnished im and to promote its soon-to-be-op new convention center to corporate utives attending the Super Bowl. Minneapolis and Tampa experie sharp jumps in convention business hosting the 1991 and 1992 Super B

Meanwhile, the Los Angeles are looking ahead to another major spo event. Next year, the Rose Bowl host soccer's World Cup Finals, a t ney that is expected to generate at $200 million in economic activity.

HOT GROWTH COMPANIES TURN INTO ECONOMIC BULLS

There may be lots of doubters there, but at least one group of utives interviewed in December th that Clintonomics will be good for ness. Coopers & Lybrand's latest terly survey of chief executive office 300 of the nation's fastest-growing panies indicates that 73% now feel mistic about the economy's path the next 12 months, compared to last September. And though 25% "uncertain" about the economy's p pects, only 2% are clearly pessimist

Looking ahead, growth-company expect their own companies' sales t crease by an average 24.8% this yea addition, some 77% plan to add emp ees, and more than half plan sizabl creases in capital investment.

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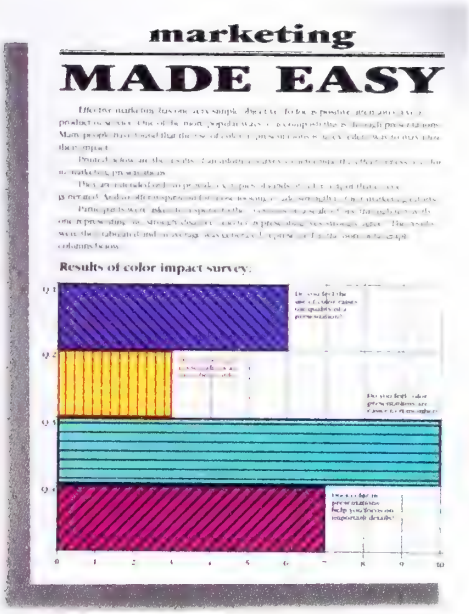

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JARY 15, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

"S AN EXPANSION, TUPID

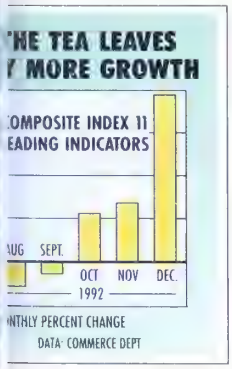
After all its starts and stalls during the past two years, the U. S. economy gives every sign that, finally, it is getting its act together. That doesn't n muscular growth at the nearly 4% clip posted in the th quarter of last year. But by all recent indications, economy has now reached the flash point at which the ansion becomes self-sustaining.

f course, the economy doesn't move in a straight line. uilding after hurricanes Andrew and Iniki gave growth mporary boost in the fourth quarter. And consumers very likely to take a break after their buying binge at end of last year. All this will make it tough for vth to avoid slowing down this quarter.

owever, strong demand has lit a fire under manufacers. Output is picking up as the new year gets under . Despite more layoff announcements at a few major orations, job prospects appear to be slowly improving. l more jobs will generate the income necessary to o the growth machine churning.

993 IS FF TO GOOD TART

The economy developed a good deal of momentum in the second half of 1992. Real gross domestic product grew at an annual rate of 3.8% in the fourth quarter, r a 3.4% advance in the third. That was the huskiest -quarter growth in nearly five years, and it was up stantially from the 2.2% pace in the first half.



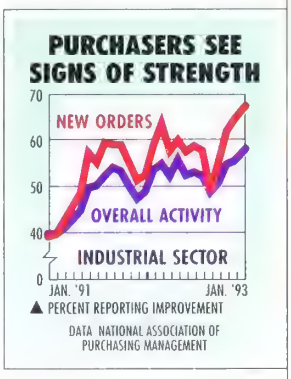
Leading the fourth-quarter gain: consumer spending, business investment in equipment, especially office machines and computers, and housing construction. Because inventory growth subtracted from last quarter's gain, overall demand surged ahead at an even faster 4.5% annual rate last quarter, after a 2.8% pace in the third quarter. That was the strongest two-quar- pace of final demand in 4½ years.

lthough consumer buying and homebuilding are likely ool off in the first quarter, equipment investment not. Equipment outlays rose at an annual rate of % in the fourth quarter, and the almost certain enact- nt of a retroactive, incremental investment tax credit es further big gains likely.

quipment outlays have been an important contributor he economy, as companies strive to cut labor costs and st productivity. Since the end of the recession in the first quarter of 1991, equipment spending has accounted for a quarter of the economy's growth. The outlays have gone almost exclusively for high-tech office equipment, and of that, computers and peripheral items have accounted for nearly 80% of the increase.

Initial readings for January suggest that the economy carried some of its momentum into 1993. Consumer surveys indicate better economic conditions, including slightly improved labor markets. Department stores report almost no letup in the pace of post-Christmas sales. Manufacturers enjoyed a surge in new orders in December, and the nation's purchasing managers reported continued vigor in the industrial sector in January.

Also, the government's December index of leading indicators, designed to forecast the economy, scored the biggest gain in nearly 10 years. The index jumped 1.9% at yearend, pushed up by gains in 9 of the 11 components (charts).



That surge should not be interpreted as a sign that the economy is ready to boom. The January reading will probably look tamer. Five components—orders for consumer goods, bookings for capital equipment, unfilled orders, initial claims, and consumer expectations—will not supply the same strength that they did in December. Still, the leading index bodes well for continued growth.

FACTORIES GEAR UP AS DEMAND BUILDS

Some of the strongest vibes are coming from manufacturing. Strong retail demand last year appears to have depleted inventories and sowed the seeds of a pickup in output—and perhaps more hiring. Orders for durable goods soared 9.1% in December, the largest gain in 1½ years, to the highest level in four years. The increase was broad, and it was large enough to swell the backlog of unfilled orders for the first time in 16 months.

The rise in the order backlog, combined with the extraordinarily long factory workweek—a 26-year high in December—are good signs that manufacturers are finally seeing the kind of improvement in business conditions that engenders confidence in the future. If these conditions continue, the factory sector will soon be adding workers instead of laying them off.

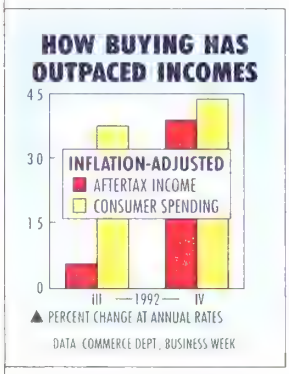
The National Association of Purchasing Management's January report added lots of encouragement. The NAPM's

composite index of industrial activity rose from 55.4% in December to 58% in January, the highest reading in 4½ years. Among individual components: The NAPM's orders index jumped to a nine-year high. The production index hit a five-year high. And delivery times from suppliers, a gauge of market tightness, were the slowest in four years.

All this appears to groove with the last quarter's GDP report, which showed that inventories in manufacturing and retailing shrank in the fourth quarter. The need to replenish those stockpiles is sure to give output a lift in the first quarter, especially auto production. Detroit's output schedule for this quarter is very aggressive.

CONSUMER BUYING WILL SLOW, NOT STOP

Consumers were a big source of fourth-quarter growth in GDP. Their inflation-adjusted spending advanced at a 4.3% annual rate. The problem for 1993 is that this spending spree was financed by savings and credit cards. Real disposable income grew by a solid, but slower, 3.8% last quarter—the second period in a row that income growth has lagged behind spending (chart).

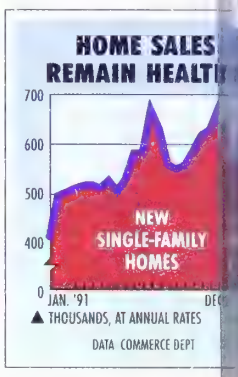


Personal income did post an impressive 1% increase in December—but much of that was temporary. Many top executives cashed in their stock options in 1992 to avoid the expected hike in taxes on the wealthy in 1993. So, too, Wall Street paid out its lucrative bonuses at yearend instead of in January. Bonuses paid by securities firms and auto companies accounted for almost half of the December gain in personal income.

That boost, which benefited only a small segment of households, will disappear in January, which could make the month's personal-income data look lousy. Moreover, many households are realizing that the cut in tax withholding last year means smaller refunds or a tax bill this year. And the onslaught of credit-card bills, now hitting mailboxes, will cause further strain on some budgets.

Consumers probably won't cut spending drastically though. The gradually improving job picture argues against that. But the pace of buying is sure to slow from the 4% growth rate in the second half of 1992.

Housing isn't about to crumble, either. Sales of new single-family homes jumped 6.3% in December, to an annual rate of 656,000 (chart). A better assessment of the economy plus lower mortgage rates are drawing home buyers into the real estate market. According to HSH Associates, a publisher of mortgage-rate data, the fixed rate on a 30-year mortgage at the end of January plunged to 7.95%—close to the 19-year low. 7.89% hit last September. Not surprisingly, mortgage applications to buy a home, as of Jan. 22, have surged some 45% from four weeks earlier.



Lower mortgage rates also signal another round of refinancings. Because a record number of homeowners refinanced in early 1992, fewer consumers are likely to take advantage of the low rates this year. But for those who missed the last opportunity, the lower monthly payments will mean more cash for spending.

It's all the little things, such as better household cash flow, that are finally coming together for the first time since the recession officially ended in March, 1991. Indeed, factors such as better consumer confidence, slowly steady job growth, the combination of lean inventories and stronger orders, and a heightened willingness of businesses to invest are the building blocks of a true and lasting expansion.

THE WEEK AHEAD

RETAIL SALES

Thursday, Feb. 11, 8:30 a.m.

Retail sales probably edged up by 0.2% in January, say economists surveyed by MMS International, a division of McGraw-Hill Inc. However, the most pessimistic forecast calls for a 0.5% decline. Store sales had jumped by 1.2% in December, in what was the best holiday shopping season in four years. After a strong finish at the end of 1992, car-buying weakened in January. But the *Johnson Redbook Service*, published by securities firm Lynch, Jones & Ryan Inc., reports that department-store sales were strong last month, especially along the East Coast. Excluding car sales, the consensus view is that store receipts probably increased by a moderate 0.4% in January, after rising 0.6% in December.

PRODUCER PRICE INDEX

Friday, Feb. 12, 8:30 a.m.

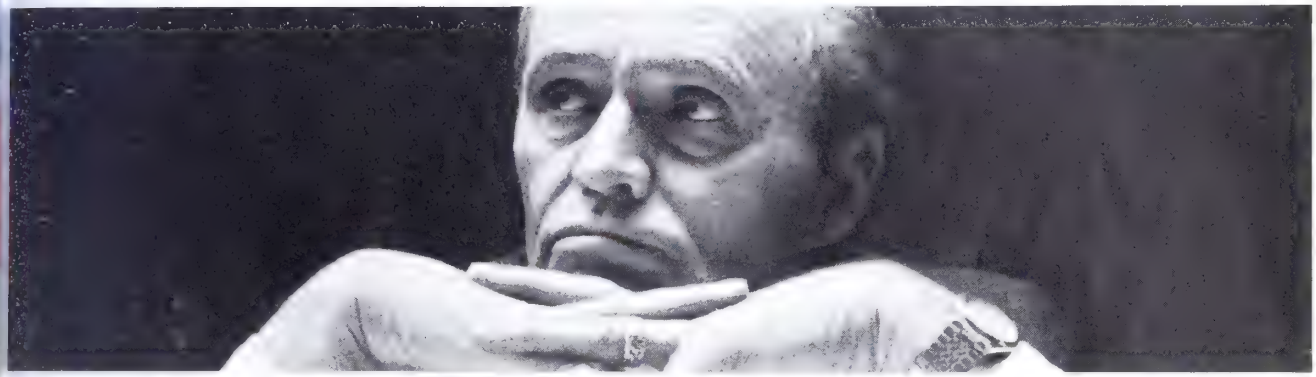
Producer prices of finished goods probably advanced by 0.2% in January, the same mild gain as in December, says the MMS report. Excluding food and energy costs, producer prices likely increased by just 0.2%, after a 0.3% rise in December. In 1992, producer prices, excluding food and energy, grew by only 1.9%—the smallest rise in producer core inflation in nine years. The outlook for inflation: Weak demand and foreign competition will keep downward pressure on industrial-price increases throughout 1993 and into 1994.

BUSINESS INVENTORIES

Friday, Feb. 12, 10 a.m.

The MMS economists expect that inventories stored at manufacturers, wholesalers, and retailers probably were unchanged in December, after rising 0.2% in each of the previous two months. But the burst in retail sales in December suggests that inventories may have been drawn down a bit at year's end. Indeed, the strong performance by retailers suggests that overall business sales increased by a sturdy 0.8% in December, after rising 0.4% in November. The combination of flat or falling stock levels and rising sales indicates that the ratio of inventories to sales slipped to a lowest reading in 11 years.

BETTER ASK YOURSELF SOME QUESTIONS BEFORE SIGNING THAT NEW AT&T CONTRACT.



1

If we sign, do we get locked into something we don't want to get locked into?

2

If we sign with AT&T, do we give up the benefits of competition? How do we get the best value for our money in the future?

3

For 800 services, doesn't a contract with AT&T mean giving up the chance to use MCI's innovative Takeback & Transfer™ feature?

4

Do we miss the chance to deal with MCI—which was named #1 in *Computerworld Magazine* for four straight years, for using technology to drive down costs, while improving quality and customer service?

5

Do we also miss the chance to deal with the company [MCI again] named #1 in customer support service by a *DataCommunications Magazine* survey?

6

All in all, isn't this the worst time in history to lock ourselves into AT&T?

7

Wouldn't it be a good idea at least to call the number below and talk to one of MCI's representatives? That way you can get yourself some answers.

MCI

IF NOT US, WHO? IF NOT NOW, WHEN?
1-800-955-0346

REQUIEM FOR YESTERDAY'S CEO

OLD-STYLE EXECS WHO CAN'T ADAPT ARE LOSING THEIR HOLD

Memo to chief executives:

No one ever said it was going to be easy. But these times truly are brutal. Competition is tougher than ever, customers more demanding, and investors want better and better performance. Look around: Even your directors are feeling the heat, and now they're beginning to ask tough questions. Your peers are tumbling at IBM, General Motors, Westinghouse. Time is running out.

Count James D. Robinson III as the latest of the mighty to fall. In the end, even "the Teflon executive" couldn't escape growing shareholder disgust with how he clung to power at troubled American Express Co. On Jan. 30, just a week after he seemed to have secured his position, Robinson declared he would quit as chairman of the financial-services giant. His decision followed resignations by IBM Chief Executive John F. Akers and Westinghouse Electric Corp.'s Paul E. Lego.

Why all the corner-office commotion? There are any number of reasons, many of them already well-known: the damage wrought by recession and a real-estate bust, rising shareholder activism, hotter competition from abroad. Yet there are a few other currents now coursing through America, trends that corporate chieftains ignore at their peril.

The cruelest is as inevitable as a clock's next tick. The World War II generation of managers, a group one might call the most successful and powerful ever, is at last passing on from the nation's executive suites. Sweeping in behind them, and maybe pushing a bit, are younger people. Just as the first baby boomer President has ushered George Bush and his circle of contemporaries off the national stage, so, too, is a new generation of managers taking control.

And for much the same reason. Just as George Bush "didn't get" such baby boomer issues as mandated family leave, the old guys just aren't "getting" how fast their companies must move to keep up in the global marketplace. The sluggish corporate reforms plotted by former General Motors Chairman Robert C. Stempel and Digital Equipment Corp.'s Kenneth Olsen are what finally did them in. Their successors: John F. Smith Jr., tested in the global auto arena as head of GM Europe, and Robert B. Palmer, who grew up in the technology biz as a maker of tiny semiconductors—not of refrigerator-size computing boxes such as those Olsen invented.

Call it the Elvis Effect, this phenomenon of generational change marked by the Clinton-Gore victory. It has employees, suppliers, investors, even a few odd directors, sizing up the boss anew. "The country's political atmosphere can have some unintended consequences," observes Richard S. Tedlow, a business history professor at Harvard business school. "People are starting to look at the leadership of their companies differently."

Similarly, though more subtly, taps is being played in corporate corridors for the whole way of doing business that was modeled on the command-and-control procedures of the military. Organization Men to the end, these postwar executives created largely self-sufficient hierarchies with explicit chains of command. If the system could crush the Axis, why not use it to defeat business rivals? But with the system came this one killer side effect: Managers became more responsible to each other than to customers.

Still, it worked well enough in a business world dominated by the U.S. But this model began to fail as American hegemony slipped away. Rapid change, not devotion to some internal order, is now the imperative. Old-style managers simply can't make the radical breaks needed to extend their success into the future. "It's not just age, it's mindset," notes Noel M. Tichy, a management professor at the University of Michigan. "Today's chief executives can't have an emotional commitment to the past. They can't be afraid to shake things up." At IBM, example, Akers repeatedly promised a turnaround that n came. As a 32-year IBMer, he couldn't reinvent Big Blue s ly enough. Chances are his successor will be younger—an more comfortable with a flatter power structure where al ty and agility are prized over rigid, almost military, obedie

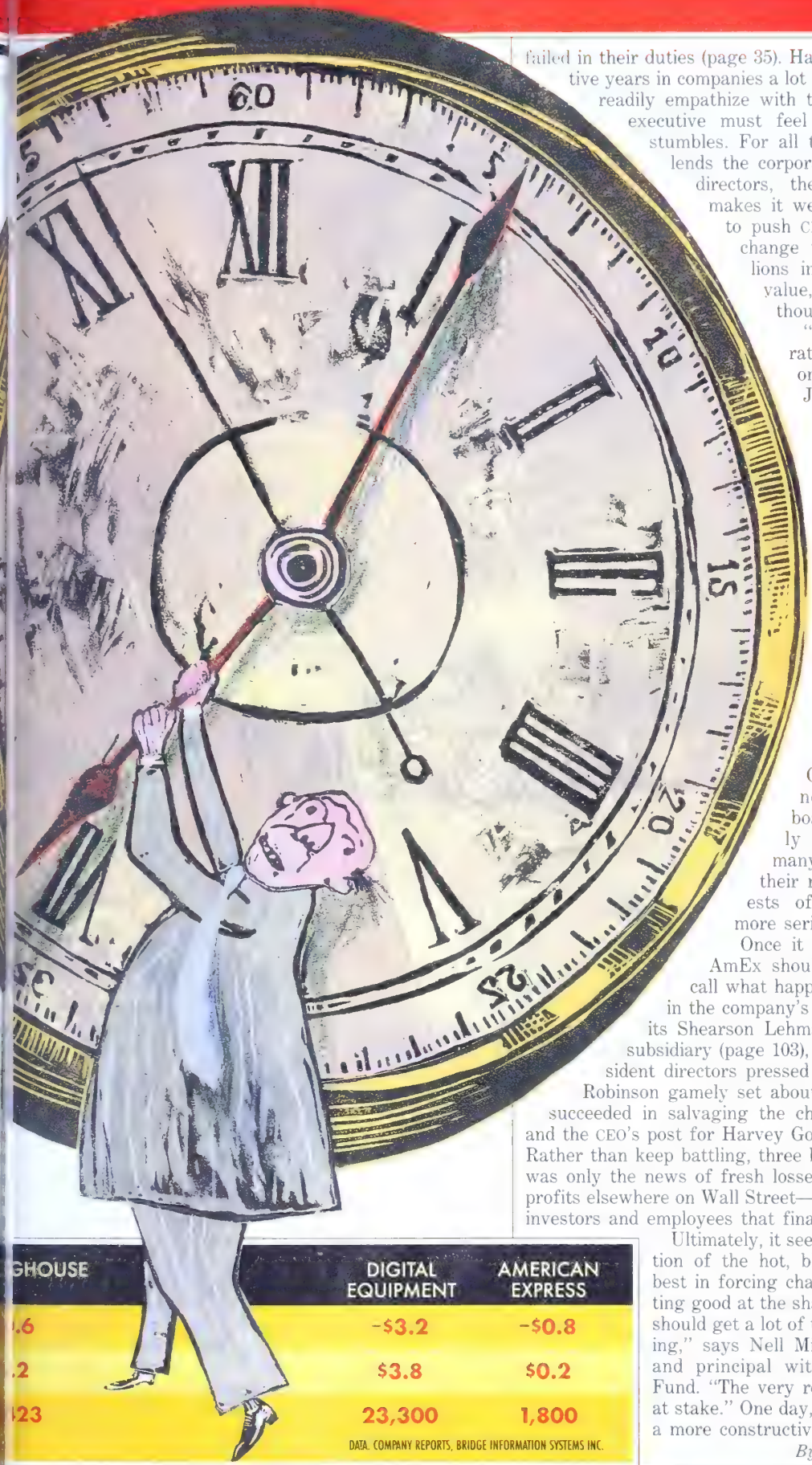
So much of this trouble for America's corporate titans m have been avoided had the same parochial perspectives clouded the judgment of many outside directors. They si

HOW BAD MUST IT GET?

Corporate directors are bouncing big-name CEOs—but only after a lot of damage has been done. A look at a few companies' performance since 1990:

	IBM	G M
FALLOFF IN PROFITS BILLIONS OF DOLLARS	-$8.7	
LOST MARKET VALUE BILLIONS OF DOLLARS	$32.3	
JOBS CUT INCLUDES ANNOUNCED CUTS TO BE MADE IN 1993	103,000	5

*Excludes $20.8 billion charge for retir



GHOUSE	DIGITAL EQUIPMENT	AMERICAN EXPRESS
.6	-$3.2	-$0.8
.2	$3.8	$0.2
23	23,300	1,800

DATA: COMPANY REPORTS, BRIDGE INFORMATION SYSTEMS INC.

failed in their duties (page 35). Having spent their own formative years in companies a lot like an IBM or GM, they could readily empathize with the personal agony any top executive must feel when his company badly stumbles. For all the benefit their experience lends the corporations they help oversee as directors, their coincidence of outlook makes it well-nigh impossible for them to push CEOs for the harder, swifter change that might have saved billions in profits and stock market value, not to mention hundreds of thousands of jobs (table).

"The real tragedy of corporate life is that changes occur only after it's too late," says James O'Toole, director of the University of Southern California's Leadership Institute. "Instead of capitalizing on opportunity, these companies are responding to crisis. And when you're down, it's pretty hard to put Humpty Dumpty back together again."

Pressure from institutional shareholders promises to be a growing force in the overhaul so much of Corporate America still needs. And last spring's boardroom coup at GM obviously has inspired directors in many other companies to take their roles representing the interests of investors and employees more seriously.

Once it sinks in, Robinson's fall at AmEx should reinforce the lesson. Recall what happened: As problems mounted in the company's travel-card operation and at its Shearson Lehman Brothers Inc. brokerage subsidiary (page 103), shareholders and a few dissident directors pressed for change at the top. But Robinson gamely set about to quash the uprising and succeeded in salvaging the chairman's office for himself and the CEO's post for Harvey Golub, his choice as successor. Rather than keep battling, three board dissidents resigned. It was only the news of fresh losses at Shearson—amid record profits elsewhere on Wall Street—that provoked the fury from investors and employees that finally ousted Robinson.

Ultimately, it seems that it's shame—humiliation of the hot, blinding variety—that works best in forcing change. And outsiders are getting good at the shame game. "Embarrassment should get a lot of the credit for what's happening," says Nell Minow, a shareholder activist and principal with Washington-based Lens Fund. "The very reputation of the directors is at stake." One day, maybe, boards will discover a more constructive motivation.

By John A. Byrne in New York

ILLUSTRATION BY FRANK FUSCHETTO

EXECUTIVE SUITE

HOW TO SUCCEED IN BUSINESS WHEN YOUR COMPANY DOESN'T

Some CEOs keep their jobs no matter what. Here's how they do it

It's fairly obvious why so many top executives have lately vacated their jobs. What's less clear is how the chief executives at other troubled companies have held on to their corner offices. Here's a look at the survival strategies of other CEOs under fire:

Lotus

You can say one thing for Lotus Development Chief Executive Jim P. Manzi: He sure knows how to manage a board. Under Manzi, the software house lost its stranglehold on spreadsheets and walked away from a 1989 merger with Novell Inc. that would have made Lotus the world's largest software company. Until 1987, Lotus' revenues were actually larger than those at the company that now holds that title—rival Microsoft Corp. Today, Lotus' market capitalization is just $1 billion, compared with $26 billion for Microsoft. Now, with spreadsheet profits dwindling, Lotus is pinning its future on the risky strategy of beating Microsoft in applications software for networked computers. Nevertheless, Manzi, 41, has clung to power by ousting potential rivals and dissident directors. Of 27 vice-presidents at Lotus in 1990, only 11 remain. And Manzi forced out two of five outside directors in 1989. He says they offered no "constructive" criticism. But he then spent three years finding their replacements—and, at that, kept the board cozy by replacing just one of the two. Wall Street analysts say Lotus shares, trading at about $25, would take a big jump if Manzi quit. But don't bet on it.

POLAROID'S BOOTH

Draft a bet-the-company plan, and get the board behind it. That formula has protected Polaroid CEO I. MacAllister Booth. Polaroid stock now trades for less than two-thirds of its 1988 high. Last year's $213 million operating profit was the company's smallest since a loss in 1988 spurred a raid by Shamrock Holdings. Revenue growth has barely outrun inflation, hitting $2.1 billion last year, compared with $1.9 billion three years ago. Nevertheless, the board backs Booth's long-term plan to pump up stagnant film sales with a new instant camera, while guiding the company into electronic imaging, starting with a dry X-ray system. The oh-so-slow rollouts—five years in the making—have kept Booth in place, even as the California Public Employees' System voted against Booth and the board last year. Ignoring outside critics was a favored tactic of Polaroid founder Edwin H. Land. Squeezed out in 1980, Land made ignoring Wall Street a badge of honor, telling a 1987 interviewer: "The essence of business leadership . . . is to be able to turn your back on the demands of the financial world."

DELTA'S ALLEN

It's tough even for an optimist, such as Delta Air Lines Chairman Ronald W. Allen, to say he loves to fly these days. All that shows at Delta is $804.3 million in losses for the past two years. So when a press conference was called on Jan. 28, as Delta was reporting a $126.3 million loss for the December quarter, many expected CEO Allen to get his walking papers. Wrong. A smiling Allen announced that Delta's board instead had given him the added title of president. Why the new plum? Allen has been effective in making directors feel like partners, and he rarely brings surprises to the board's monthly meetings. That means directors have a hard time pinning problems on him alone. "It's not like we didn't all agree to buy the Pan Am routes," says one director of Delta's ill-fated 1990 overseas expansion. "And Delta's not the only airline facing difficulties." Still, Wall Street and the debt-rating agencies need convincing that Allen has the guts to take unpopular measures. So far, Allen has slashed new plane orders and cut salaries 5% for most employees. But unionized pilots are balking. If revenue growth doesn't improve soon, look for forced layoffs. Allen's hold on his job could be a developing story.

AA

No doubt about American Airlines Inc. had a terrible 19 Parent AMR Corp. posted a record net loss of $ million for the year on the heels of $240 million loss in 1991. And even executives concede that their effort simplify airline pricing in April was expensive mistake, because of the cious price war it sparked. But CEO Robert L. Crandall is barely feeling any from his board. His secret: communication, lots of it. Crandall's top management team attends every board meet to answer questions. And Crandall courages all directors to participate the meetings of every committee, wh builds a sense of group accountabil He also holds frequent board teleconf ences between regular meetings to with pressing issues. "It would be most impossible for anyone to sp more time [than Crandall] educat their board," says a former senior exe tive. Meanwhile, Crandall still is try to return American to profitability. has cut $300 million from this year's erating expenses, slashed more than management jobs, and is mulling clos hubs and returning leased planes.

TANDY'S ROACH

Radio Shack claims to be America's favorite technology store. But the numbers don't show Profits at parent Tandy Corp. have fallen for three straight years. Chairman John V. Roach's survival strategy? Reinventing the company—over and over again. After profits dipped in 1989, Roach shifted Tandy's focus from manufacturing back to its retailing roots. He tinkered with Tandy's 7,000 Radio Shack stores, trying larger formats and briefly breaking with tradition to allow rival brands in shops. At the same time, Roach expanded Tandy's brand-name stores, which sell everything from electronics to major appliances. When that wasn't enough to turn things around, Roach moved Tandy into consumer electronics and computer "superstores." Finally, in January Roach came up with a plan to spin Tandy's manufacturing division into an independent unit, called TE Electronics. Roach has one more weapon: a board. Says Matthew D. Upchurch, a Tandy heir and son of board member Jesse L. Upchurch: "The Tandy boards stacked with directors who on paper look like true outsiders but have insidious connections to Roach."

OHN'S
PER

Theodore Cooper, Upjohn Co.'s long time chief executive, startled employees and shareholders on Feb. 1 with the news that he is being treated for bone-marrow cancer. The 64-year-old physician says that his illness was diagnosed early and that nces for recovery are good. But Coo- isn't out of the woods professionally. ce before Cooper took Upjohn's top in 1987, the drugmaker has been rged by a shortage of hot new prod- s. And in October, two of Upjohn's t-sellers lose patent protection: anti- ciety drug Xanax and sleeping pill lcion. They could face generic compe- on—and Upjohn still has no replace- nt blockbusters. Far from putting per on notice, Upjohn's board last r waived the company's mandatory 65 retirement, and he agreed to stay il 1995. Why the support? Cooper has sked the fundamental problems by tly propping up earnings through t-cutting, price increases, and strate- marketing alliances. Still, if Upjohn earchers can't come up with a home soon, Cooper will need a new bag of ks to hang on to his job.

'S
ASKOG

Shareholders have long been up in arms over the performance of ITT Chairman Rand V. Araskog. Earnings at the conglomerate have been erratic. And ITT stock has consistently lagged the Standard & Poor's 500-stock index. But Araskog at least knows how to buy nself time. In 1990, when his compen- tion package climbed to $11 million— ore than double his 1989 package— areholders pressed for reform. Aras- g agreed to have his compensation d to ITT's stock performance. Since en, he has worked aggressively to ore up the value of the shares. Aras- g sold off ITT's 30% share in Alcatel, nounced plans to repurchase 25 mil- n shares of stock, shut down a money- sing mill in ITT's forest-products vision, and took painful charges in r's insurance and financial-services visions. But Araskog isn't out of dan- r. He still has to meet an ambitious % return on equity goal by 1995. And e major shareholder says ominously: trust that [Araskog] is getting reli- on, and every time another major O head rolls, it further concentrates s mind."

Commentary/by Judith H. Dobrzynski

THOSE BOARD REVOLTS PROVE THE SYSTEM WORKS, RIGHT? WRONG

Pretty heady stuff, those resignations by chief executives at IBM, American Express, and Westinghouse. And not just for beleaguered shareholders. The dramatic changings of the guard, forced or not, at these corporate icons provide powerful ammunition for executives who say there is nothing wrong with the way U. S. companies are run. When performance lags, boards act, they say. The process works.

There's something wrong with this picture, though. In all three cases, the CEOs inadvertently sparked the process that toppled them, while directors sat idly by until the end. At American Express Co., the board even let ex-CEO James D. Robinson III control the search for his successor and stay on as chairman, causing three members to quit in disgust. Robinson's bid to keep power and save face failed only because big investors stopped it cold.

'BLINDSIDED.' These upheavals show that the culture and the politics of the boardroom still are too dependent on the CEO. IBM director James E. Burke admitted as much when he said the board was "blindsided" by the severity of the company's losses but didn't hold that against CEO John F. Akers. So did Richard M. Furlaud, AmEx's new nonexecutive chairman when he conceded that "steps can be taken to improve the functioning of the board."

Boards can start by agreeing to meet with large shareholders when need be. Direct exposure to shareholders could prompt quicker remedial action at troubled companies. Investors, meanwhile, will be able to test the involvement of their representatives—leading to more informed voting at proxy time. Some companies may find such meetings to be a way to buy time for recovery; others may simply use them as a reality check.

Much more should be done to change boardroom dynamics, though, starting with the executives now rising to the top. They are more comfortable with collaborative management than their predecessors—and should take the same approach with directors. "The new generation of CEOs will better appreciate the value of having a group of contributors," predicts executive recruiter Thomas J. Neff of Spencer Stuart & Associates. Ideally, boards will function less as clubrooms, with dissent being expressed privately only to the CEO, and more as arenas for real give-and-take discussions.

Contrary to conventional wisdom, most boards need more active and recently retired CEOs—not fewer. While diversity is a nice idea, experience shows that troubled companies in particular get more from those with direct business knowledge. But not the CEO's cronies. Outsiders, rotated regularly, should do the nominating.

Many directors give short shrift to a key duty: regularly appraising the CEO's performance, formally and specifically. Directors need to set performance goals and deadlines, tied to compensation. While they're at it, board members should periodically evaluate directors' performance to make sure each is contributing.

HEIRCRAFT. Succession planning can also use an overhaul. It should not be done by the CEO as he or she nears retirement. Directors should reassess often the executive skills needed in the future and see to it that insiders are helped along in developing them. They also should periodically look outside the company for comparison.

There's no sure way to avoid corporate debacles. But rewriting board policies to improve managerial accountability could curb some of the disruptive episodes the U. S. is witnessing.

Dobrzynski often writes about boards for BUSINESS WEEK.

TOP TO BOTTOM: PHOTOGRAPHS BY MICHAEL L. ABRAMOWITZ; ROB KRAMER; ILLUSTRATION BY FRANCIS FITTER

TELECOMMUNICATIONS

HE CAME, HE SAW, HE CLEANED UP . . . HE LEFT

Northern Telecom's Paul Stern is outta there. What's next—IBM?

In his four years as chief of Northern Telecom Ltd., Paul G. Stern has spectacularly improved the performance of Canada's best-known multinational. Profits at the telephone-equipment maker have soared, and its stock price has followed (charts). But in the process, the aggressive executive, an American, has taken Northern far from its roots in the Canadian telephone industry.

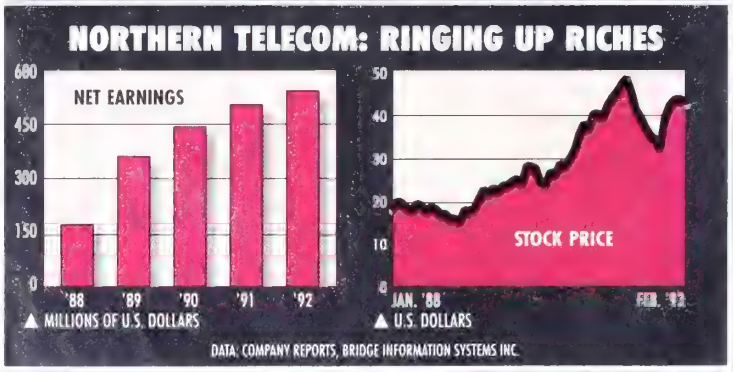
Perhaps too far for the comfort of BCE Inc., Canada's largest company, which owns 52.7% of Northern. Stern opened a second headquarters near Washington, D. C., created an executive office dominated by Americans with no telecommunications experience, and fostered a demanding, no-excuses culture that seems abrasive by Canadian standards.

Understandably, BCE has been reluctant to mess with success. But now that Stern is giving up his post to become nonexecutive chairman—with rumors swirling that he may be eyeing the top job at IBM—BCE is wasting no time in returning Northern to its roots. On Mar. 1, Stern will pass the baton to Jean Monty, former CEO of BCE's other major holding, Bell Canada, which is Canada's largest phone company. Monty says he's sticking with Stern's high-growth strategy, aiming to make the $8.4 billion Northern one of the world's top three telephone-equipment producers by decade's end. But insiders expect a sea change in style. Where Stern has been aloof, Monty builds "great rapport with people at all levels," says Robert Kearney, Monty's successor at Bell Canada.

ITCHY FEET. Monty's ascension has seemed inevitable since October, when BCE moved him to the No. 2 post at Northern. But some directors say they're surprised that Stern, with two years left in his employment contract, is leaving. "I wish he had waited longer," says O. Bradford Butler, retired chairman of Procter & Gamble Co. But Stern—who brags he has worked for seven companies over the past 28 years—says that with Northern's turnaround largely complete, "it is time for me to go." Besides, he adds, he couldn't resist "the desire to do other things."

Such as what? Well, at Unisys Corp., where Stern served as president until 1988, speculation is rampant that he may be headed for IBM. Stern insists his resignation—announced on Jan. 28, three days after John F. Akers said he was vacating IBM's CEO seat—"had nothing to do with IBM." Perhaps. But Stern, 54, possesses much of what the IBM board says it's seeking. He has a technical background, including a PhD in physics. He knows IBM, having worked there for seven years early in his career. And he has experience in turnarounds.

MONTY (LEFT) SAYS HE'LL COPY STERN'S HIGH-GROWTH STRATEGY



When Stern became Northern's C[illegible] March, 1989, the company had jus[illegible] ported a 50% drop in earnings for [illegible] Northern was bloated and drifi[illegible] Stern quickly cut the fat, then re[illegible] nized the corporation to take on [illegible] world market. Since then, a $2.6 b[illegible] acquisition of Britain's STC PLC, a [illegible] venture with France's Matra, and a li[illegible] zard of other deals have boosted N[illegible] ern's sales outside North America [illegible] fold, to $2.1 billion in 1992. Meanw[illegible] Stern has increased Northern's total [illegible] enues 56%, to $8.4 billion, and triple[illegible] earnings to $536 million.

BIG CHANCE. Monty's arrival should a[illegible] ally improve Northern's chances of [illegible] ing more equipment business f[illegible] American Telephone & Telegraph [illegible] Northern has already pulled almost e[illegible] with AT&T in the big U[illegible] market for central-of[illegible] switches, the high-t[illegible] guts of the phone syst[illegible] Now, AT&T's proposed [illegible] ance with McCaw Cell[illegible] Communications Inc. "[illegible] given Northern a huge [illegible] portunity," says Dil[illegible] Read & Co. analyst Mi[illegible] Guité. The reason: M[illegible] Baby Bells, the key [illegible] tomers for phone eq[illegible] ment, believe the AT[illegible] McCaw deal threat[illegible] their local phone serv[illegible] After 18 years at Bell C[illegible] ada, Monty is bet[illegible] equipped to exploit t[illegible] opening than Stern, [illegible] had no prior telecomm[illegible] cations experience.

But Monty, 45, faces [illegible] bigger challenge: conti[illegible] ing Northern's internati[illegible] al expansion. The Fre[illegible] Canadian's resumé is [illegible] match for that of Ste[illegible] who grew up in Mex[illegible] City, ran the Braun unit [illegible] Gillette Co. in Germa[illegible] and has contacts all ov[illegible] the world.

Stern says he has [illegible] fered to "help [Monty] [illegible] the international arena." Their first j[illegible] is to sign a major deal in Germany. B[illegible] Monty may not be able to count on Ste[illegible] for long. For now, Stern says he's lo[illegible] ing forward to teaching at the Univer[illegible] ty of Pennsylvania's Wharton Sch[illegible] and playing tennis. But he said much t[illegible] same thing after leaving Unisys, only [illegible] snap up Northern's offer a year lat[illegible] This time, Stern's "retirement" could [illegible] even briefer.

By William C. Symonds in Toronto, wi[illegible] bureau reports

S

)YOTA'S NEW CKUP: OOPS

using on politics instead of market is hurting its T100

looked so simple. While the reces- on flattened the U. S. market for utos, sales of light trucks last year at an astonishing 12% clip. That enough for Toyota Motor Corp. It d to be the first Japanese company ep into the most lucrative part of ruck market—heavy-duty Ford and y pickups. By November, Toyota's was ready.

t a funny thing happened on the to the docks: Infighting among ta executives over the truck's size price (table, page 38) and an import of as much as $2,500 conspired to the T100 look like one of Toyota's est mistakes in years. By Feb. 1, ta had sold just 2,445 of the $14,000 s—far fewer than the 50,000-unit al pace it planned. "If it were priced ctly, we'd be taking market share from the Big Three in big num- " says Paul York, a Toyota dealer in Corpus Christi, Tex. "But they need to cut the price by $2,000."

THE NEARLY FULL-SIZE T100 COMES ONLY WITH SIX CYLINDERS—A TURNOFF TO U.S. BUYERS

Toyota moved to remedy the error on Jan. 28, slapping factory-to-dealer incentives of $1,000 on each truck. And it is offering cash bonuses to salespeople for each truck they sell. "I guess we've all learned that it's a very competitive and very price-sensitive part of the market," says J. Davis Illingworth, group vice-president at Toyota Motor Sales USA Inc.

Price isn't the only problem. The T100's design is a sort of compromise, aimed at letting Toyota tiptoe into the big-truck market without triggering a backlash in Detroit and Washington. Toyota executives in the U. S. wanted a big, hulking, full-size pickup with all the legendary Toyota quality and refinement. But Japanese executives were nervous, figuring that a head-on competitor would spark a new round of tariffs and quotas against Japanese cars.

So they invented a new niche, a so-

HARDLY A SHOWROOM FOR EQUAL OPPORTUNITY

t 34, Janice T. Ford wants to be her own boss. Three years ago, the Ford Motor Co. electrical ineer quit her job to enter the com- y's minority dealer training pro- m. She expected to be running her operation by now, but instead 's in limbo. Her money's running , and as one of the last to join up 's near the bottom of a list of 45 ority dealer candidates.

anice Ford's predicament shows how hard it has been for minor- s to gain a foothold in the business flogging cars. Despite recruitment orts by some auto companies begun ler pressure from civil rights ups, the record is dismal. Ford Mo- says that just 4.8% of its 5,144 U. S. lers are minorities. Competitors e done worse. Just 2.7% and 2.1% of ysler Corp. and General Motors p. dealerships, respectively, are mi- ity-owned. Among the Japanese, nda claims 3.2% minority dealers, ota 2.4%, and Nissan 2.4%. And Eu- ean companies have virtually none. s one of the most racist businesses in the country," gripes Robert A. Hill, president of the National Association of Minority Automobile Dealers.

Now, minority dealers are trying to bring the issue to a head. Six former Ford dealers—all graduates of the minority program—are suing Ford in federal courts, alleging among other things that it lured them into poor locations where they were bound to fail. Ford denies the charges, but the dealers plan to air their gripes about it and other companies at the National Automobile Dealers Assn. convention in New Orleans opening Feb. 6.

PRESSURE. What went wrong? Auto companies found it tough to add new dealers during the recession, with an average of 640 dealerships a year nationwide failing. And the companies admit that available dealerships are often in white-bread rural areas where it's hard for minorities to succeed.

JANICE FORD: AFTER THREE YEARS, SHE'S STILL IN LIMBO

The Big Three say they bent backward to alleviate these problems. Ford lends minorities most of the $3 million to $6 million dealership price, and pays them $40,000 a year while they're trained for two years. When minority dealers fail, it sometimes even reimburses their $100,000 initial investment.

But Ford is clearly trying harder than most companies. Chrysler, for instance, takes new minority dealer candidates only after the ones it has already trained have gotten dealerships. Volkswagen, BMW, and Mercedes-Benz say they don't have minority dealer programs at all. Japanese companies say they're just getting started, though Mel Farr, the black former football great who owns Ford and Toyota outlets, says "they're not doing a damn thing."

Whoever's right, one thing is clear: With dozens of Janice Fords waiting for a chance, the pressure is on to put minority dealer recruitment in high gear.

By Greg Bowens in Detroit, with Larry Armstrong in Los Angeles

(TOP TO BOTTOM) PHOTOGRAPHS BY REID HORN; DONNA TERK

called intermediate size midway between the three-quarter-size Dodge Dakota and the full-size Fords and Chevys. They reasoned that the truck would give owners of Toyota compact pickups something to move up to without overtly threatening the Big Three. Toyota even decided to postpone the T100's introduction until after the U. S. Presidential elections.

TINY NICHE. The resulting product turned out to be neither fish nor fowl. It's too big to appeal to the yuppies that make up the market for compacts. And besides being overpriced, the T100 is underpowered. Toyota doesn't offer an optional V-8 engine, and the standard six-cylinder engine isn't muscular enough for the heavy-duty hauling and towing that big pickups are often used for. "We thought of it as a niche product, but we thought the niche was bigger," says Zenji Yasuda, general manager of Toyota's Americas Project.

It's too early to count Toyota out of the big-truck market. Analysts think Toyota will keep plugging away, quietly adding extended-cab models and a V-8 engine—though it's unlikely that General Motors Corp. will build the engine, as had once been discussed.

The two companies may strike another sort of T100 deal. Toyota is talking to GM about using one of its U. S. plants to build the truck—though that's not likely to happen until Toyota can boost sales. Building the truck in the U. S. would allow the company to bypass America's 25% import duty on trucks a save union p "Toyota wants the politically c Japanese car co ny," says Christ W. Cedergren, vice-president a searcher AutoP Group. By 1997, h ures, Toyota will full-fledged playe

Until then, T will continue pa the price for bein How big a price? "Each one has a homage to Washington built in," Texas dealer York. That's 2,000 truck buyers want for themselves.

By Larry Armstrong in Los Angele Karen Lowry Miller in Tokyo, with Woodruff in Detroit

TOYOTA'S STICKER SHOCK

Commentary/by Joseph Weber

KIDS, SHOTS, AND DRUG RESEARCH. LET'S GET SOME ANSWERS

From 1989 through 1991, some 55,000 Americans caught measles. A full 150 of them died. That signaled a problem with vaccination rates: Most victims were preschoolers who hadn't had their shots. Indeed, the Centers for Disease Control estimates that in inner cities and rural areas, fewer than half of the children under age 4 now are being immunized against diphtheria, mumps, and German measles. Nationwide, the rate may be below 65%, as parents put off vaccination until school-entry rules require it.

Now, some public-health advocates are pressing the Clinton Administration to try to boost early vaccination rates by requiring government to buy up all $512 million worth of pediatric vaccines produced annually, then distribute them free. The result? Parents would no longer pay the $400 to $500 that a full battery of immunizations can cost. Senators Edward M. Kennedy (D-Mass.) and Donald W. Riegle Jr. (D-Mich.) are drafting such a bill.

The intent is laudable. Nevertheless, such a program is unlikely to dramatically boost immunization, and could even dampen vaccine research. And where is the money to come from? Advocates haven't presented a convincing accounting of costs and financing.

The plan also assumes that high prices shrink vaccination rates. Unquestionably they play a part. Figures collected by the Children's Defense Fund show the price to doctors for an expanded battery of immunizations has risen nearly tenfold since 1982, to $230 (table). Doctors' markups can drive the tab above $500. Advocates cry gouging. Indeed, in a Feb. 3 report, Senator David H. Pryor (D-Ark.) accused the industry of "unadulterated greed," citing rising drug prices overall.

But public complacency, ignorance, and low-quality or inconvenient public-health clinics are more to blame for keeping toddlers from getting their shots. "In most cities, vaccines are available for free, but that hasn't solved the problem," says Dr. San L. Katz, a Duke University immun tion expert.

Moreover, turning this segment the drug industry into a utility r curtailing competition and innovat About half of drugmakers' vac sales go at a steep discount. Selling of the medicine to public-he agencies or state governments drastically limit vaccine pro

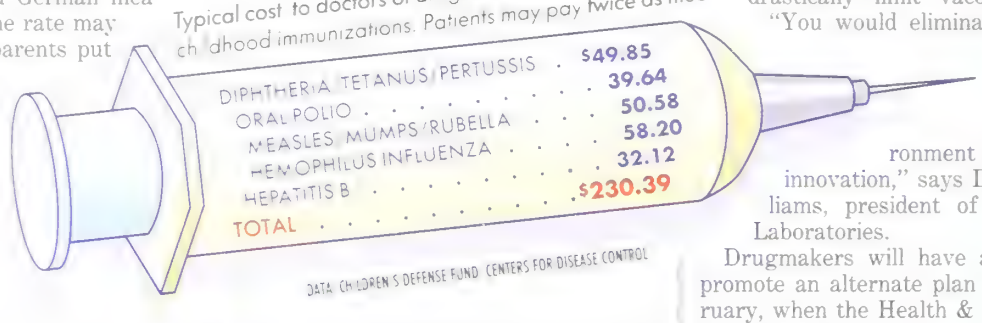
"You would eliminate the e ronment that fost innovation," says David J. liams, president of Connau Laboratories.

Drugmakers will have a chance promote an alternate plan in late F ruary, when the Health & Human S vices Dept. holds an open meeting vaccines. They should come up w proposals that will immunize m kids—and stop outsize price inflati How about using their marketing s vy to reach inner-city parents? A what about the role of insurers? C good idea: a Pennsylvania law that quires underwriters to cover childh shots. Those are the sorts of ideas t will take a whack at the problem without destroying innovation.

Weber covers the drug industry for

JUNIOR'S VACCINE TAB

Typical cost to doctors of drugs for full regimen of standard childhood immunizations. Patients may pay twice as much



DATA: CHILDREN'S DEFENSE FUND, CENTERS FOR DISEASE CONTROL

EALTH REFORM: THE CLINTONS MAY AVE TO RUN TO CATCH UP

re than a dozen states are charging ahead with their own plans

When the nation's governors trooped to the White House on Feb. 1 to meet with one of alumni, they were handed a wel-, if not unexpected, gift. President on told the state chiefs that he ld order federal health-care bureau- to slash the red tape that controls caid reform at the state level. Hilla- Rodham Clinton, meanwhile, added governors to the expanding White se task force on health-care reform. ast, the governors exulted, Washing- seems ready to grapple with the runaway health costs and shrink- access to care they've been fighting a decade.

at beneath the bonhomie, the gover- delivered another message to the ident: We aren't waiting for you. gered by 19% annual increases in medicaid bills, more than a dozen s are charging ahead with their health-reform plans (table). Some simple, such as Montana's and South ota's plans to make the health-insur- market friendlier to small employ- Their rules would bar insurance panies from hiking premiums or can- g group policies once any single em- ee falls sick.

hers are more sweeping: Florida Minnesota hope to remodel their th-care policies along the lines of ton's managed-competition proposal. o so, they would lump state employ- medicaid recipients, small-business loyees, and the uninsured into sin- large insurance-buying cooperatives. can't wait for a national plan that delay our ability to provide access to le who need it," says Lawton Chiles, ida's Democratic governor. "We can e dust—or eat dust."

OKY STUFF. The furious activity on th-care reform, both at the grass- s level and in Washington, is further ling an already splintered business munity. Small-business groups, for ance, are poised to fight any attempt orce them to provide coverage for 25 million workers and dependents lack insurance. "Government ld stay out of health care and allow ll businesses to be flexible," says y Neese of the Oklahoma United iness Coalition. The group emphati- opposes Democratic Governor Da- Walters' plan to create a state-run ority, financed in part by the state's employers, that eventually will insure all Oklahomans.

Big businesses, on the other hand, tend to want health reform—but on a national scale. Spooked by the possibility of 50 sets of rules on required benefits and funding schemes, large employers favor federal health reform over state initiatives by a 4-to-1 margin, according to a December poll by benefits consultant Hewitt Associates. Says an American Airlines Inc. spokesman: "A national health policy would enable companies like ours to provide consistent benefits to all employees."

Many medium-size companies, meanwhile, prefer to see health care overhauled in their own statehouses. The Associated Industries of Florida, for instance, worked closely with Chiles on his proposal. Now, the group praises it as "a business-oriented solution." Catherine A. Anderson, chairman of Medical Graphics Corp. in St. Paul, Minn., favors the flexibility of Minnesota's insurance-reform plan, which would let her $20 million, 116-employee company opt out of the regional purchasing cooperatives if it can strike a better deal on its own. "I believe I can control my company's costs better," Anderson says.

The divisions only add to the daunting obstacles facing state health reformers. Doctors and hospitals exercise great sway in statehouses, where they have created webs of mandated benefits that drive up the costs of insurance—including requirements that all policies cover liposuction or infertility treatments, for example.

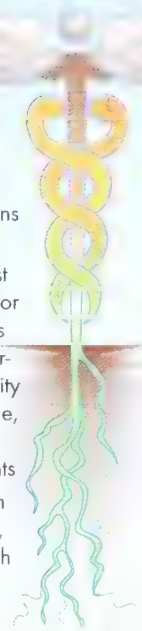
To cope, many states, including Colorado, Vermont, and Minnesota, are counting on managed-care networks of health maintenance organizations and other doctor-hospital pairings to increase the efficiency of health care. But providers are using their considerable influence to undermine that effort. Public hospitals in California, for example, have halted the state's recent attempt to save $79 million a year by funneling 20% of the state's 5 million medicaid recipients into HMOs. Arguing that the shift will cost them patients who currently support the costs of their emergency rooms, these hospitals are pressuring the legislature to do away with the experiment altogether.

Given the difficulties, some states—including California and Texas—have decided to wait to see what sort of health overhaul Bill and Hillary Clinton can produce. Patience is proving costly, however, for both the states and employers. If Clinton's clout fades before he can deliver on his health-care promises, governors are ready to pick up the reform mantle. That means business may have to take its medicine in 50 doses instead of one.

By Mike McNamee in Washington, with Irene Recio in Miami and bureau reports

GRASS-ROOTS REFORM

Some states aren't waiting for the feds to overhaul health-care services:



FLORIDA Governor backing plan to organize regional purchasing cooperatives to buy coverage for groups and individuals. Proposed insurance reforms would ban exclusions for pre-existing conditions

GEORGIA Has established a low-cost insurance pool to provide basic care for families and children with incomes less than 250% of the poverty level. Governor wants to expand medicaid eligibility and combine state employee coverage, medicaid, and the low-income pool to command greater purchasing discounts

MINNESOTA Considering legislation that would create networks of doctors, HMOs, and hospitals to provide health care for a flat annual per-capita rate. State would set budget cap

NEW MEXICO Legislature is considering single-payer plan: State would purchase all health care, charging employers a payroll tax to cover workers

OKLAHOMA Governor sponsoring a plan for state authority to define minimum benefits package and pool purchasing for state employees, medicaid, and currently uninsured

OREGON Governor plans to press Clinton for medicaid waiver to focus coverage on "most necessary" services and preventive care

VERMONT New law requires universal coverage by 1994. Study group is weighing two options—a payroll-tax-funded state plan or an expanded employer-financed system

TAB F ILLUSTRATIONS BY LISA FINCUSE BRA MATH B/W

MANAGEMENT

BOXED IN AT JACK IN THE BOX

How the burger chain's food-poisoning crisis became a PR disaster

The tragedy began with a $2.69 "Kid's Meal." On Jan. 11, Michael Nole, 2, happily tore into the dinnertime cheeseburger bought for him at the Jack in the Box restaurant on South 56th Street in Tacoma, Wash. The next night, the boy, stricken with severe stomach cramps and bloody diarrhea, was admitted to Children's Hospital & Medical Center in Seattle. Ten days later, Michael died of kidney and heart failure.

By then, bad news was pouring into the San Diego headquarters of Jack in the Box's parent, Foodmaker Inc.: As many as 300 people had been stricken with the same *E. coli* bacteria responsible for Michael Nole's death. Most victims had eaten recently at Jack in the Box outlets in Idaho, Nevada, and Washington. Others apparently got sick after contact with restaurant customers.

Crisis on such a scale is never easy going, but Jack in the Box's response was hardly smooth. True, the company's 12-person crisis team, working from a plan devised in the mid-1980s, quickly scrapped nearly 20,000 pounds of hamburger patties prepared at meat plants where the bacteria were suspected of originating. It also changed meat suppliers, installed a toll-free number to field consumer complaints, and instructed employees to turn up the cooking heat to kill the deadly germ.

MASS EXODUS. But it took nearly a week for the company to admit publicly its responsibility for the poisonings. Even then, the admission seemed halfhearted. At a Seattle news conference, Jack in the Box President Robert J. Nugent attempted to deflect blame—first criticizing state health authorities for not telling his company about new cooking regulations, then pointing a finger at Vons Cos., which supplied the meat.

That performance didn't win many public-relations points. Instead, nervous customers defected to other burger joints in droves. A once-jammed Jack in the Box on Wilshire Boulevard in Los Angeles' business district has been practically deserted since the incident. In the San Joaquin Valley north of L. A., Austin Wallestad says sales at his eight Jack in the Box outlets have slid more than 20% since the poisonings began. To encourage customers to come in, he has ordered employees to eat their lunches in the main dining room instead of their regular lunch area. "This thing is killing us," says Wallestad, who has laid off three store managers and delayed plans to build five new restaurants until traffic picks up.

What could Jack in the Box have done? Closing every store for a week or more for a thorough inspection—a strategy recalling Johnson & Johnson's nationwide withdrawal of Tylenol capl in 1982—would have effectively dr tized the company's concern, says ic ard Zien, who represented the cha the mid-1980s and is now president agency Mendelsohn/Zien Advert Inc. Furthermore, Zien says, Foodm should have extended immediately apologetic ads it ran in Seattle to important cities. "Their biggest m is in L. A.," says Zien. "Do they we don't read newspapers in L. A.?

TOO LITTLE, TOO LATE. More than thing else, Foodmaker should moved faster. Its offer to cover vic hospital costs came two weeks news of the first poisoning. And th campaign, featuring Chairman Jac Goodall Jr., simply didn't keep pace rumor and gossip. The death of a girl in San Diego was linked by newspapers to Jack in the Box, wit conclusive evidence that she had there. And an NBC newscast promin displayed the Jack in the Box logo ing a report of the death of another in Washington—who also had not at the hamburger chain.

Events seemed to be getting from Jack in the Box elsewhere: restaurant was closed when a w was found to have hepatitis A, an get Sound Power & Light Co. advis employees to be immunized if they at Jack in the Box.

Company officials, claiming learned of the possible contamin only on Jan. 17, say they move quickly as they could, removing ta beef well before local health autho concluded there was a danger. And deny their actions were motivate concern about the financial health o company, which restructured $501 lion of debt last year. In its fiscal ended Sept. 27, Foodmaker's pr earnings leapt sixfold, to $38.7 mil on sales of $1.2 billion. "From the be ning, we did what was right for customers," says Sheree Zizzi, dire of corporate communications.

Jack in the Box will eventually re lost customers, but that could take t Three years ago, Perrier Group slow to acknowledge problems with zene in its water. U. S. sales have turned only slowly. It may be six mo before customers come back in the s numbers to Jack in the Box, says Ro N. Paul, president of the restaura dustry consulting group Technomic Small wonder. "I'm kind of freaked about it," says 15-year-old Robert bruin of Fresno, Calif. "I mean, pe are sick."

By Ronald Grover in Los Angeles, Dori Jones Yang in Seattle and Lo Holson in Fresno

TACOMA, WASH.: AFTER A MEAL BOUGHT HERE, A 2-YEAR-OLD BOY DIED

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CITIES

L.A.'S GOOFY, BUT DEADLY SERIOUS, RACE FOR MAYOR

There are so many candidates—52—that it's hard to see the issues

As gatherings go, this one was more vaudeville than serious politics—but most of all, it was pure L. A. Adam Bregman, a 22-year-old guitarist sporting shoulder-length hair, took to the podium at West Angeles Church in the city's south-central section to plug environmentally correct water-permeable pavement and street festivals to unify the population. A clearly perplexed congregation continued to listen politely as Laurence Greenblatt, who says he is a tax preparer, hobbled to the microphone on a huge foot brace and screamed: "I guarantee I will never be a black, a woman, or a gay!" After a long pause, Greenblatt got to the point: "But I support the rights of all!"

Eccentrics notwithstanding, Los Angeles is a city in trouble. A record 52 candidates, Bregman and Greenblatt among them, are jostling for attention before the Apr. 20 primary, fighting to lead a city still reeling from the aftermath of last year's riots. Even before that violence, L. A. was beset with a soaring crime rate, unemployment at 9%, and a crumbling business infrastructure. City government has been adrift for years under the benign leadership of 74-year-old Tom Bradley. It now labors under a $500 million budget deficit.

The looming federal civil rights trial stemming from the 1991 Rodney King beating further clouds the city's future. For most of this century, L. A. has grown relentlessly and, in the process, lent prosperity to the hordes of immigrants who flooded the city. But the glue that held it all together, economic growth, has taken a powder. What remains is an urban sprawl rapidly fragmenting along a dozen racial and ethnic lines. Left on its current course, "this whole place could fall apart," warns Kevin Starr, an urban planning professor at the University of Southern California.

'DANCING LANDMARK.' No surprise that racial tensions and job creation have quickly emerged as the key issues of this race. No surprise, too, that so many think they have the solutions. Following Bradley's announcement of his retirement, the mayoral wannabes poured in, among them two ministers, a pair of doctors, a plumber, and a street performer who calls herself a "Dancing Landmark."

Just now, the frontrunner is Michael Woo, a 41-year-old Chinese-American city council member. Running on a p form that stresses racial harmony, has adroitly tapped sources of N money nationwide to build a comm ing $1 million war chest. Woo was ported by 24% of likely voters in a re poll by the television station K Among his proposals are an urban P Corps of the sort favored by the Cli Administration and creation of a sortium of Korean and black bank promote business development in th ner city.

The inner city is where L. A.'s big headaches pound away. But nearly of the city's voters reside in the m white, largely conservative San Fer do Valley. That's why Richard Rior a wealthy Republican lawyer and nessman who worked with junk-bond on Michael R. Milken on levera buyouts in the 1980s, looks to be W toughest rival. Riordan is taking a line on crime and promises to fund 3 new police jobs by leasing L. A. Inte tional Airport. He has raised an imp sive $684,000 from such business lea as Barron Hilton and Rupert Murdo in part by promising to ease busi regulation. If needed, he says, he will dip into his own $100 mil fortune.

Riordan and other candidates k the city's frazzled economy needs fix too. Richard Katz, a state assemblym has hired former Clinton mana James Carville to run his campaign. wants to create "a Silicon Valley transportation" by helping small com nies enter emerging markets for elec cars and environmental engineeri Likewise, businessman Nick Patsaou is pushing a platform of "reurban tion" that would include afforda housing and inner-city greenbelts.

'MELROSE LARRY.' Angelenos will h plenty of other voices before April. L ly to draw considerable support is Councilman Nate Holden, the strong black candidate. But Holden is mire allegations that he sexually haras one of his aides. A largely divided panic community has slowly warmed Julian Nava, former school board me ber and ambassador to Mexico in Carter Administration, who wants give resident aliens the right to vote

L. A. already has heard plenty fr candidate Greenblatt. Standing on busy intersection along trendy Melr Avenue during rush hour, "Melr Larry Green," as he calls himself, been exhorting passing motorists to v for him since July. He won't win, but efforts did get him a bit part in a M donna video. Nice work—maybe ni than having to run the City of Angel

By Eric Schmitt in Los Ang

John Hudick, Ford Quality Surveillance Inspector

"Sometimes quality comes from tearing a car apart."

At Ford Motor Company, we randomly select vehicles from our assembly lines and tear them apart to check the quality of the welds. It's just one of the many ways we monitor the safety and structural integrity of all our vehicles. At Ford Motor Company, our greatest strength is quality.

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EDITED BY DEIDRE A. DEPKE

NO PAIN, NO GAIN

President Clinton's budget isn't complete. But aides have made it clear that most Americans will feel the pain of reducing the deficit—including the elderly. Here are some widely discussed options for Social Security:

A one-year freeze on cost-of-living allowances for recipients of Social Security and government-employee pensions

Fiscal 1994 savings: $10.9 billion

Four-year savings: $43.5 billion

Limit cost-of-living allowances to the consumer price index increase, minus 2 percentage points

Fiscal 1994 savings: $6.8 billion

Four-year savings: $54 billion

Increase the portion of benefits included in figuring adjusted gross income for higher-income retirees from 50% to 85%—effectively taxing more Social Security benefits

Added revenue in 1994: $5.6 billion

Added revenue over four years: $26.4 billion

DATA: CONGRESSIONAL BUDGET OFFICE

LORENZO IS TESTING NEW WINGS

▸ He's ba-aack. Frank Lorenzo, who used deregulation to build an air empire through acquisition—only to watch it slide into bankruptcy and dissolution—plots a return to the industry. Lorenzo, whose tiny Texas Air gobbled up People Express, Continental, Eastern, and several others, left the business in 1990.

Sources say Lorenzo's investment group, Savoy Capital, may fund a startup carrier that would fly short-haul flights in the Southeast. Savoy Managing Director Dave Hackett says nothing has been decided. "We've seen a large number of business plans and have an interest in a couple of them," he says.

GE WILL REWIRE IN LOUISVILLE

▸ General Electric will plunk down $70 million to upgrade its washing machines and its production plant in Louisville, Ky., assuming employees there endorse changes in work practices. GE had said that without the investment, it would have contracted with an outsider to make its washers, eliminating 1,500 jobs in Louisville and threatening the long-term future of the massive Appliance Park complex. On Feb. 1, GE corporate execs approved the investment, which also is supported by $20 million in incentives from state and local governments. Union officials, who have worked closely with the company, will present proposed changes to their membership at a meeting scheduled for Feb. 7.

MACY'S: LOOKING GOOD IN BASIC BLACK

▸ R. H. Macy, which recently celebrated its first anniversary in bankruptcy court, reported a $177 million operating profit on $1.2 billion in sales for the five weeks ended Jan. 2. While no angels were sighted on 34th Street over the holiday season, a small miracle may have occurred: This was the first time since Macy's huddled under the protection of the bankruptcy court that it has been able to operate in the black.

MEMENTO MORI

The name Taikichiro Mori looms large in Tokyo. When the 88-year-old Mori died of heart failure on Jan. 30, he left behind 45 buildings in prime Tokyo locations—all bearing his name. There could have been more: Mori's closely held group of companies owns 83 properties. But Mori dropped his naming scheme in 1968, nine years after erecting his first building.

Mori left behind one of the world's largest fortunes—a p estate group worth more than $13 billion. The fortune co also be one of the world's most stable: Mori buildings' occup cy rate is higher than Tokyo's average of 96%, the real est group says. Besides, the scholarly Mori, a former acade who wore kimonos even to work, eschewed stocks—along w alcohol and tobacco. Two of Mori's sons will take over op tions for the group. But they're not likely to start liquidat properties, given Tokyo's real estate slump.

AT&T LOSES ITS UNIVERSAL SOLDIER

▸ Paul Kahn, who launched AT&T's successful Universal card three years ago, is moving on. The former banking executive was miffed by AT&T's veto of his plans to expand into general financial services, such as insurar "The company wasn't p pared to move as far and f as I wanted to," he sa AT&T views the card, wh combines a MasterCard a Visa with a phone-char feature, as merely an hancement of its long-d tance service, not a fr standing business. Ka whose resignation takes fect on May 15, led the U versal unit to a Baldri award in 1992.

BEIJING PULLS IN THE CHIANG KAI-SHEKELS

▸ No doubt Mao Zedo would turn over in his m soleum if he heard of the l est tourist hot spot in Chi Xikou, the idyllic hometo of Chiang Kai-shek. For cades, Beijing has heap scorn on Chiang and his N tionalist government, whi fled to Taiwan in 1949 aft ruling China for 22 yea But now, as many Taiwane tourists make the pilgrima to Chiang's scenic mounta retreat, mainlanders are p ting aside politics and raki in big bucks. *The China D ly* claims that even Comm nist Party boss Jiang Zem and Prime Minister Li Pe have visited the place.

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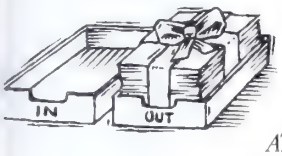

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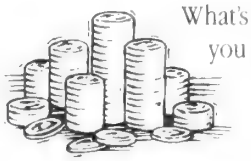

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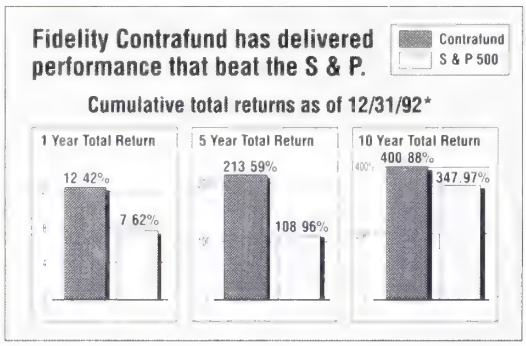

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EDITED BY STEPHEN H. WILDSTROM

/HAT FUMBLES ON THE HILL /ILL COST CLINTON

utting Democrats in charge of both ends of Pennsylvania Avenue was supposed to end gridlock. But in a town of diverse interests and big egos, Bill Clinton is ning to take nothing for granted—including the support of sometime friends in Congress.

ıfter his cocky entrance into the capital, Clinton damaged standing with some Capitol Hill heavy hitters with a ıg of rookie mistakes. While none of them was terribly se- s, they forced the President to spend precious political cap- to keep peace within his party. Some he bills will come due as Congress de- ıs the fate of the tax increases and nding cuts that Clinton will offer in his . 17 State of the Union speech.

:CED RETREAT. Perhaps the most lasting ıage was done when Clinton unneces- ıly angered Senate Armed Services ımittee Chairman Sam Nunn (D-Ga.). ıough Nunn's reservations about ending ban on homosexuals in the military 'e well-known to the Clintonites, they ɜd to consult him before pressing the is- . "Any fool would have told [Clinton] he uld have," says Vanderbilt University tical scientist Erwin C. Hargrove.

NUNN MAY STILL BE ANGRY

Vith Nunn leading the opposition, Clin- was forced to retreat. The prickly Georgian may extract a her price in coming months during fights over defense bud- cuts and military restructuring proposals.

:linton has also gotten off to a bad start with two other verful senators whose help he will need. New Finance ımittee Chairman Daniel P. Moynihan (D-N.Y.) was peeved the Administration's hints that it might trim Social Secur- benefits and by a cheeky White House aide's comments t the Administration was prepared to "roll right over" senator's opposition. Clinton sheepishly called Moynihan— ɔse jurisdiction includes taxes, Social Security, health care, l welfare—with profuse apologies.

And Judiciary Committee Chairman Joseph R. Biden (D-Del.) is still smarting from the White House's failure to heed his warnings that the nomination of Zoë Baird for Attorney General was in trouble. The desire to avoid further difficulty with the chairman and other Democrats on his panel, which must approve all judicial nominees, may partly account for the long delay in picking a new Attorney General.

Some observers say Clinton erred in thinking that Congress could be handled as easily as the Arkansas legislature. "He may be able to do that in a small state, but not in Washington," says California Attorney General Daniel E. Lungren, a former GOP congressman. "The institutional Democrats are not going to turn their power over to Bill Clinton or anybody."

Capitol Hill Republicans are watching the education of Bill Clinton with partisan glee. "Some lessons are taught best by a two-by-four upside the head," says Senator Phil Gramm (R-Tex.). "I think I just heard a two-by-four swish by."

But Clinton is a quick learner. On Jan. 29, he warned his staff that intraparty spats could only detract from the Administration's focus on the economy. Four days later, the President trekked to the Hill to make sure Democrats knew he was sorry for starting off on the wrong foot. "He was troubled by that," says Senator Joseph I. Lieberman (D-Conn.). A senior White House aide points out that his boss was also trying to keep senators from "free-lancing" on the important issues ahead.

Clinton will find, however, that no amount of stroking will make the barons on the Hill happy for long. Democratic senators, half of whom think they ought to be President, have their own agendas, and Clinton will have to make senatorial priorities mesh with the Administration's if he hopes to avoid constant conflict with his fellow Democrats.

By Richard S. Dunham, with Susan B. Garland

PITAL WRAPUP

IE HOUSE

he 63 Democratic House freshmen haven't been as rebellious as many :pected just after their election. But ey are not nearly as tame as the adership of the party would like. ıeir biggest show of independence to ıte: About a third of the newcomers amed up with Republicans and Dem- 'ratic conservatives to block the re- ɜwal of select committees on narcot- s, hunger, the family, and aging. The ɔmmittees are powerless, but they 'e liberal soapboxes and their staffs fer patronage. With the defections, peaker Thomas S. Foley (D-Wash.) ced defeat if he brought a measure extending the panels' lives to the floor. Instead, he is likely to let them expire on Mar. 31. More ominously for the leadership, the moderate-to-conservative coalition that doomed the select committees could pose a major threat on more important issues, including line-item veto authority for the President and even a balanced-budget constitutional amendment.

REPUBLICANS

Senator Mitch McConnell looks like a two-time loser. Last fall, the Kentucky Republican lost the chairmanship of the Senate GOP campaign committee to Senator Phil Gramm of Texas by a single vote. And last month, a plan by Senate Minority Leader Bob Dole (Kan.) to make McConnell "general chairman" of the Republican Party never got off the ground. But Dole seems to have picked the second-term Kentuckian for stardom, and he's rising rapidly in GOP ranks.

Right after Haley Barbour was elected chairman of the Republican National Committee on Jan. 29, he tapped McConnell to head a committee of elected officials that will advise the RNC. Dole has also named McConnell to head a new public-policy foundation that will critique the Clinton Administration. And McConnell was given a coveted seat on the Appropriations Committee.

TRIPPETT/SIPA

EUROPE

EUROPE'S ECONOMIC AGONY

The single market is open—but business is miserable

Quiet and self-effacing, Chairman Pierre Suard of France's Alcatel Alsthom is hardly one for hyperbole. But seated in his Paris office, a former workshop where Gustave Eiffel forged sections of his tower, the boss of the world's biggest telecommunications-equipment maker is feeling extremely gloomy. "Europe is going through the worst economic crisis of my career," says Suard, 58. "I just can't see what's going to turn things around."

Words such as Suard's are echoing all over Europe. Just as it raises the curtain on its vaunted single market, Europe cannot shake an agonizing economic slump that seems sure to get worse. Once confident that the combination of economic stimulus from German unification and the heady call to a single market would let it skirt the U. S. downturn, Europe is now plunging into Continent-wide recession. That's fueling bitter fights among nations over jobs, trade, currencies, and interest rates.

STUCK FAST. At the heart of the problem is the German economy, which is in "maybe its deepest recession in the post-World War II era," says former Bundesbank President Karl Otto Pöhl. Germany's economy could contract by as much as 2% this year. France, which chose to link its currency and economy closely to Germany's, is in a deflationary spiral that is likewise plaguing Italy. And Britain's desperate dash for growth through lower interest rates and currency devaluation is going nowhere fast.

This year, corporate profits will register zero growth in the 12-nation European Community. Most major Scandinavian banks are seeking government bailouts. And unemployment, already 10%, is rising as new restructurings and layoffs come on top of earlier ones made in anticipation of the single market. Only six months ago, forecasters were betting on 2.5% EC-wide economic growth this year. Now, the number is a tenth of that, and economists increasingly see contraction instead. Even the U. S. recovery isn't likely to help Europe much.

This recession is unusually deep partly because Europe has made such a determined march toward global competitiveness. In their drive to create a single market by 1993, many European companies made remarkable progress. Auto manufacturers cut costs by 50% and more, dramatically closing the gap with the Japanese. Some steelmakers became the world's most efficient. Such moves and others cost Europe hundreds of thousands of jobs and depressed consumer demand. Yet for much of Europe's economy—especially the high-tech industries of the future—the goal of global competitiveness is elusive. "There was such hope for the single market," laments Alcatel's Suard. "Now, people see it's here, but unemployment continues to rise. It's extremely dangerous."

That realization is intensifying the pressure to lower interest rates and k other steps to ease the immediate ar den. But Europeans can't afford to le their single-market momentum sp Even as barrier-free trade begins wi the EC, the developing economies Eastern Europe, the former So Union, and Southeast Asia are lining to attract jobs and investment. With average German auto worker earn $30 an hour in pay and benefits, "u rope's cost structure is not flex enough," concludes Erik Belfrage, a adviser to Sweden's Wallenberg fam

When business leaders look at rope, what comes through the prism recession is a sobering glimpse of many structural barriers to competit ness that persist. If Europe wants produce a durable economic recov and make its single market really off, it will have to concentrate on a more than lower interest rates and ot typical pump-priming measures.

NO EASY SELL. To ensure it remains c petitive once the down-cycle wanes, rope must be willing to see more of low-value-added manufacturing j move to Eastern Europe and elsewh It must increase capital-investment upgrade its manufacturing base. needs to focus and redirect the EC's billion, five-year research and deve ment budget toward more commerci viable projects. And it must reduce f subsidies while continuing to hamr away at high wages and corporate t

short working hours, labor immobil- and luxurious social programs. If opeans don't follow these prescrip- s, this recession may be doomed to nore than just a cyclical one.

focus on even more open markets leaner production won't be an easy Although putting up trade barriers only insulate Europeans from the pline they need to maintain, the EC rrently negotiating to protect bat- d steelmakers by imposing fresh lim- on growing imports from Poland, gary, the Czech Republic, and Slova- In fact, it may not be until the reces- wanes that political leaders will be to convince Europeans that they're g beyond their means. In Belgium, example, unemployment is 8.5%, but of the work force is on the dole.

ower interest rates won't solve that of problem. Worse yet, interest s may not fall as far as many would . Europe has been hoping the desbank will cut Germany's 8.5% t-term interest rates. In fact, Oli- i Chairman Carlo De Benedetti ar- s Europe needs rate cuts of as much ive to six percentage points to re- e confidence and get overvalued cur- ies back to a competitive range. But Germans may not deliver.

e intensely scrutinized Solidarity talks between German Chancellor nut Kohl and unions and local gov- nents are focusing on how to share cost of unification. To break with many's existing social compact, crit- ay, such a deal should include priva- tions, no hikes in real wages, and subsidy cuts. But if the talks yield a weak compromise, the Bundesbank will hardly want to undertake aggressive interest-rate cuts.

For Europe, that leaves little choice but to redouble efforts to tackle structural problems. Many European companies spent a large part of the 1980s slimming down for the single market. But monetary and price pressures are bringing a new wave of restructurings. With flat-glass prices down 20% in the past 18 months, Saint-Gobain, the world's largest glassmaker, plans 4,000 job cuts this year on top of 10,000 since 1991. Says Chairman Jean-Louis Beffa: "This is close to a real depression."

HIGH-TECH TROUBLE. Germany's quest for leaner production may eliminate 200,000 of its 1.6 million carmaking jobs in the next few years. And Dutch truckmaker DAF filed for bankruptcy protection Feb. 2, threatening 12,650 jobs. But high-tech producers are also in trouble. Philips Electronics, for example, may be readying new job cuts after slashing 70,000, nearly 23% of its work force, since 1990. Or take German electronics giant Siemens. It started restructuring in 1989 by flattening management ranks, pruning factory payrolls, and shortening product cycles. But even with 1992 profits up 9%, to $1.2 billion, Siemens still plans to cut 15,000 jobs in 1993.

'Europe is going through the worst economic crisis of my career,' says Alcatel Chairman Pierre Suard, 58. 'I just can't see what's going to turn things around'

As backdrop to this streamlining, political shocks keep bobbing up in the wake of the EC's botched attempt to create political and monetary union among its 12 members. The Jan. 30 devaluation of the Irish punt was only the latest phase of a currency blowout that last fall drove Britain and Italy out of the EC's exchange-rate mechanism. France may suffer political upheaval after its March elections, when an expected Conservative government will rule jointly with Socialist President François Mitterrand. With the right back in power, unions could grow more strike-prone. Political reality could also strike in Italy. With a deficit already close to 11% of gross domestic product, Rome wants to privatize everything from food producers to banks in a $20 billion state sell-off. But at the same time, it's being tempted to protect Fiat, Italy's largest private-sector company.

Competitive currency devaluations are also raising hackles. Hobbled by a high pound, the British have cut interest rates five times since leaving the EC currency system last fall. A 15% devaluation of the pound against the German mark, along with more flexible work rules, prompted Maytag Corp.'s Hoover unit to cut costs 25% by switching its 600 production jobs from France to Scotland. But with short-term interest rates at 12% despite an inflation rate close to zero, pressure is growing on France to follow Britain's move. Many bet that the French will slash rates and the franc's value, if the Conservatives win office.

Can Europe save itself? It depends in part on whether Europe's elites and masses alike recognize that they cannot depend on the U.S. economic recovery or lower interest rates alone to restore a healthy and happy status quo. They need to face up to painful choices.

That will be extremely difficult, particularly at a time of hardship and gathering economic gloom. It's not realistic to expect governments to eliminate unemployment benefits when jobless ranks are growing. They won't dramatically pare agricultural subsidies if farmers are in the streets. Nor will they completely open their markets if the price is social upheaval. Their goal, however, should be to look through the temporary to the longer term and recognize that the price of a more open and dynamic economy is often painful. And that there can be no retreat.

By Bill Javetski in Davos, Switzerland, with Stewart Toy in Paris, John Templeman in Bonn, and bureau reports

WHAT EUROPE NEEDS TO DO

LABOR

Promote worker mobility, flexible work rules, and wage moderation. Boost retraining to help capture high-skilled jobs

SOCIAL POLICY

Rethink the cradle-to-grave safety net. Restrict jobless aid to those actually on the streets. Limit lavish child-care benefits

PRIVATIZATION

Don't back down even if recession is scaring investors. State industries need the discipline of the private market. Governments need the cash

TECHNOLOGY

Redirect the $7 billion R&D budget to market needs such as high-speed communications. Support joint ventures that use foreign partners

TRADE

To avert a global trade war, cut farm subsidies and resist aiding troubled industries. Open doors to the Eastern European countries

DATA: BUSINESS WEEK

LUXURY SHOPS IN DHAHRAN: PROPERTY VALUES HAVE SOARED

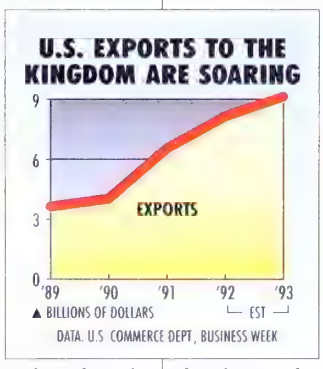
ARE THE SANDS ABOUT TO SHIFT UNDER SAUDI ARABIA?

A boom in Western opulence coexists—for now—with rising Islamic extremism

If you want to see the Saudi consumer economy going full tilt, check out Riyadh's Olayya neighborhood some evening. With its gleaming, marble-clad shopping centers and boutiques loaded with gold watches, caviar, and couture fashion, the area looks like a jazzed-up version of Beverly Hills' Rodeo Drive.

But just a mile or two away is another Saudi Arabia. In the noisy Batha market—a vast Middle Eastern-style *suq*—there are no Westerners, and the Saudis are poorer than those in Olayya. Wedged between a shoe store and an electronics shop is an audiocassette stall. But instead of music, the hundreds of tapes offer religious fare. Many are hysterical attacks on the U. S. and Israel—and some even daringly take aim at the Saudi royal family.

The jarring scenes—one rich and Westernized, the other anti-American and extremist—tell a lot about the schizophrenic reality of Saudi Arabia. Less than two years after Desert Storm, the Saudi economy is booming as never before, spelling handy profits for U. S. and European companies that are hurting elsewhere. But religious fundamentalism and political uncertainty are also on the upswing. And with them come questions about the long-term stability of the world's No. 1 oil exporter.



RENT HIKE. In the near term, things look great. The Saudi economy, charged by record oil production and postwar optimism, is growing at close to a 6% annual clip. The big Saudi cities—including Riyadh, Jeddah, and Dhahran—resemble vast construction sites. Office rents have risen by as much as 25% over the past year, while some property values have soared by over 200%. "This is probably the only place in the world where real estate is actually going up in value," says D vid Rehfuss, chief economist at Riy Bank Ltd.

Unlike past Saudi booms, this one being fueled by a newly confident p vate sector. Although tens of billions dollars fled in the days following S dam Hussein's invasion of Kuwait, m has since flowed back, and Saudis pumping money into local projects. "Y are seeing money coming out of the m

U.S. COMPANIES MINE DESERT GOLD

GENERAL

HUGHES A

ses," says Abdallah T. Dabbagh, sec-
ry general of the Saudi Arabian
nbers of Commerce & Industry. By
bagh's estimation, some $30 billion
ivate savings-account deposits with-
udi Arabia is currently available for
stment.

t that froth masks some worrying
ls. The Saudi government is increas-
unable to rein in its spending. Gov-
ent debt has ballooned, from noth-
in 1988 to more than $50 billion
y—over half the kingdom's gross
estic product. Central bank reserves,
more than $100 billion, are at a
bottom $4 billion.

ch profligacy, some fear, is creat-
an increasingly fragile speculative
le. If oil prices take a tumble, as
did in the mid-1980s, Riyadh would
no financial cushion, and the ef-
could be traumatic. "Remember,
g the last downturn here in the
s, the Islamic movement simply
t exist," says a Western diplomat in
dh. "You didn't have organizations
y to take advantage of trouble.
, you do."

w American companies, though, are
erned about such matters. For hun-
s, Saudi Arabia is a dream market.
year, it sucked up more than $8
n in U. S. nonmilitary goods, mak-
the kingdom a major U. S. export
ket (chart). Defense contractors,
as General Motors aerospace unit
hes Aircraft and McDonnell Doug-
also are cashing in. "I can safely say
Saudi Arabia is now our single most
rtant international market," says
Crigler, chief executive of Hughes
li Arabia.

Y POSSES. Saudi Arabia is a gold
for GM, Ford, and Chrysler, as well.
li cities are flooded with Chevrolet
ices, Cadillac Sevilles, and other
end models. GM is even toying with
ng up a Saudi vehicle-assembly
t. In financial services, Citibank has
of its best profit centers in Saudi
ia. Its Saudi American Bank, or
BA as the affiliate is called, turned
cool $300 million net profit last

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million worth of Chevrolet Suburbans,
nd other models

million air-defense contract, plus another
3 million communications satellite system

$2.5 billion phone system expansion

ntender for $3 billion border
ject

of Saudi American Bank, the kingdom's
able commercial lender

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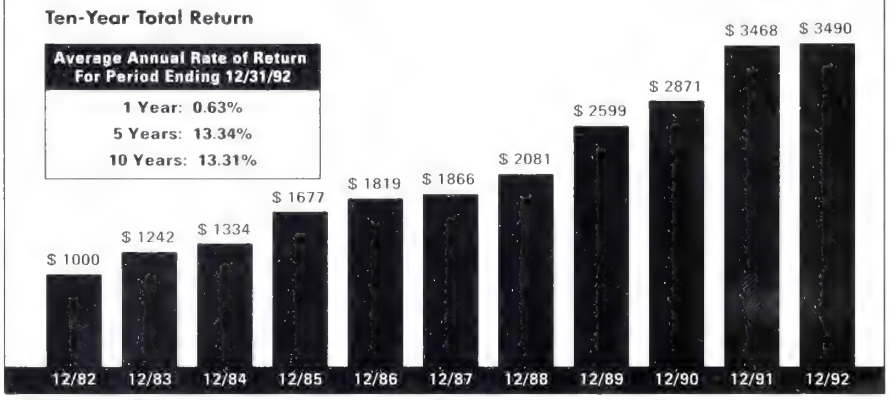

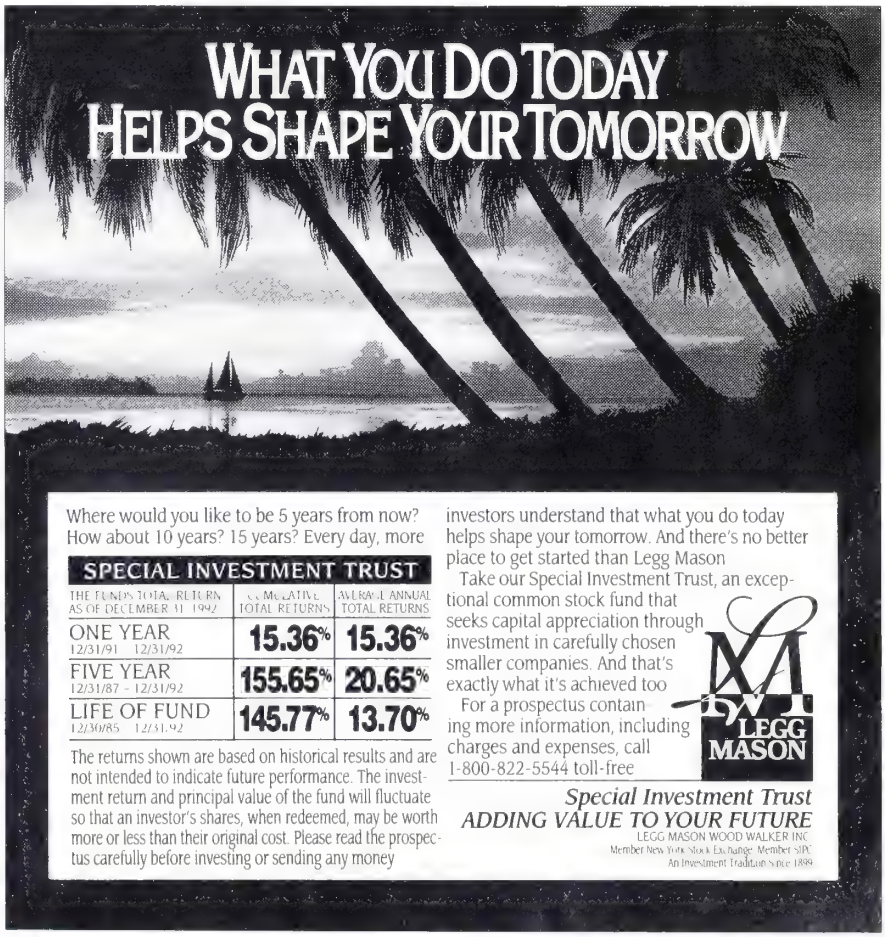

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FIVE YEAR 12/31/87 - 12/31/92	155.65%	20.65%
LIFE OF FUND 12/30/85 - 12/31/92	145.77%	13.70%

The returns shown are based on historical results and are not intended to indicate future performance. The investment return and principal value of the fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Please read the prospectus carefully before investing or sending any money

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Bill Berger

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	BERGER 100 FUND	BERGER 101 FUND
1 YEAR	8.5 %	4.8 %
3 YEAR	24.6 %	15.8 %
5 YEAR	23.9 %	14.5 %
10 YEAR	16.9 %	14.4 %
15 YEAR	16.9 %	13.0 %
From 9/30/74	15.8 %	14.0 %

Past performance shows the fund's history and does not guarantee future results. The figures include changes in share price and reinvestment of dividends and capital gains, which will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The figures include the deduction of 12b-1 fees beginning in June, 1990. Please call for a prospectus and study it carefully before investing. Source: Lipper Analytical Services

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PROFIT BY IT.

year. In part, the U.S. success dere from the low dollar and a postwar s drive by Corporate America. An part, it represents political debt-pay especially the roughly $25 billion in a purchases the Saudis have made s the Persian Gulf war.

But that very embrace of the U. creating problems in what is, after the Holy Land of Islam. Since the there has been a strong upsurge of damentalist activity, a reflection of w is happening elsewhere in the Mi East. Teams of religious police, feared *mutawi*, patrol shopping cen and supermarkets in search of at judged improper. "I don't feel safe in own house anymore," says one lea Jeddah merchant.

PC MOSQUES? The skewed political e omy plays into the fundamentali hands. Population growth, at aro 3.5 , is among the highest in the wo Already, Saudi baby boomers—c ceived in the heady wake of quadrup oil prices in 1974—are hitting the market in droves. Most are dismally prepared for productive work. In priv companies, according to one study, 2 of the work force is Saudi—the is foreign. "If you're young here," s one longtime Riyadh resident, "you t either to drugs or to religion."

While the government condones—a in some cases encourages—religious tivities, it objects when they involve p tics. And that is happening more more. In November, leading Saudi r gious scholars issued a manifesto c cizing the Saudi defense establishm and calling for a more "Islamic"—me ing less pro-American—foreign poli King Fahd lashed back with a warn to keep politics out of the mosques. "the government doesn't seem to be a to control these people," says a West diplomat in Riyadh.

Local analysts worry that Fahd is up to handling a crisis. Once regarded a relatively active, even liberal prin the 74-year-old King is by all accou indecisive, in poor health, and prone sleeping most of the day at one of many palatial complexes. Although t government apparatus has competent stitutions—from the central bank Saudi Arabian Oil Co., the state-own colossus—decision-making often b comes paralyzed at the King's level.

Still, as long as Saudi oil flows at re tively stable prices, the betting is th Riyadh will be able to keep a lid on increasingly tense and uneasy socie But if something happens to break t bubble—such as a sharp drop in the market if the U.N. embargo again Iraq is lifted—the odds would shift.

By John Rossant in Riya

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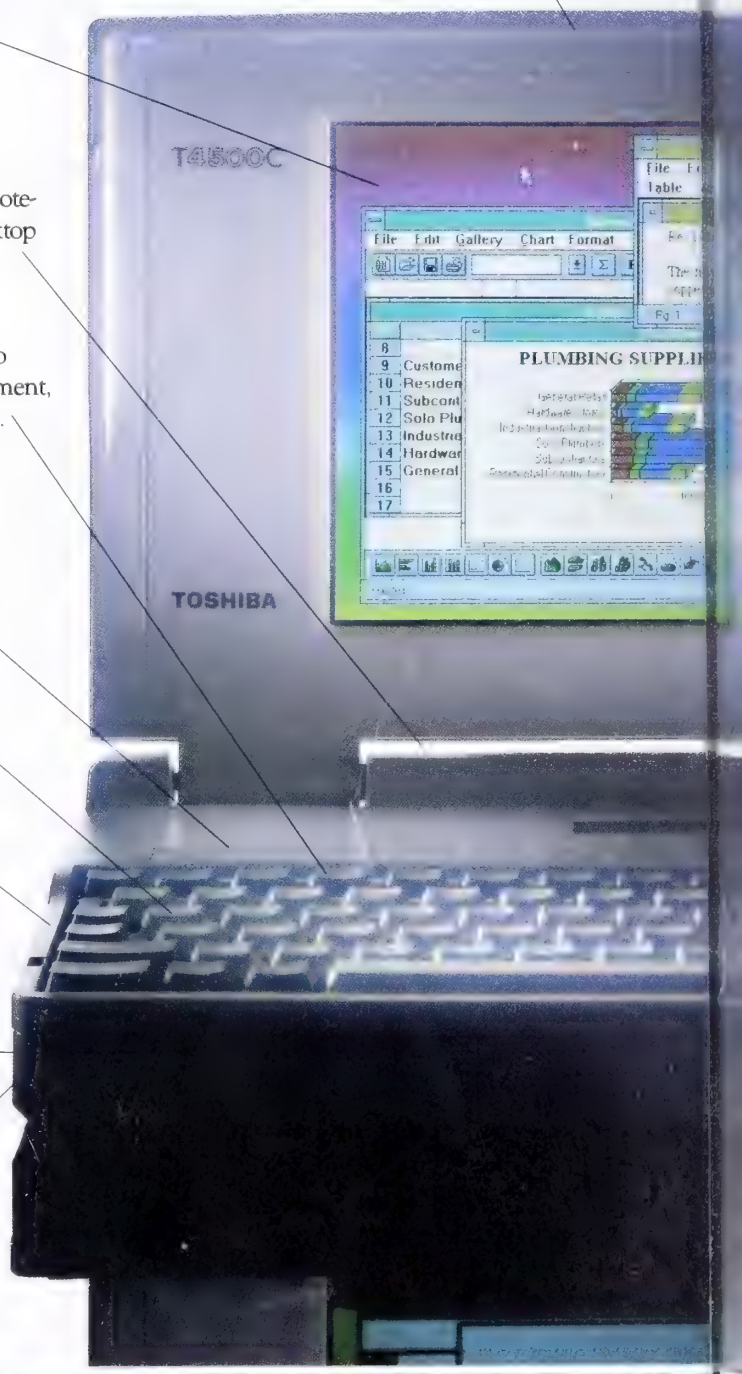

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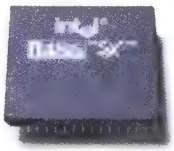

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EDITED BY STANLEY REED

LINTON'S TRADE HAWKS IAVE STARTED TO CIRCLE

andidate Bill Clinton rarely talked about trade, but President Bill Clinton is starting to show signs that he may veer sharply away from the largely free-trade ap-ach of his Republican predecessors—especially when it ies to Japan.

Ie just nominated former Cray Research Inc. Chief Execu-e John A. Rollwagen as Deputy Commerce Secretary. Roll-gen, who is likely to be a key player on trade, used the m "economic war" to describe relations with U. S. trading tners in his farewell message to employees he supercomputer maker.

Behind-the-scenes manuevering among Ad-iistration officials and lawmakers also sug-ts that a complete rethinking of U. S.-Ja-i relations could be in the offing. Some verful Democrats are toying with applying Team B" approach to U. S.-Japan relations. the Ford Administration, critics of the itral Intelligence Agency thought it was nting too rosy a picture of the Soviet ion's military buildup and intentions. So informal group of cold warriors within the ernment, nicknamed Team B, drafted its n, far darker estimates of Moscow's plans. eir pressure helped stoke up U. S. defense nding.

ISTRATING. The new Team B is led by ise Majority Leader Richard A. Gephardt Mo.). Its members include Clyde V. Presto-z, a Reagan Administration official who ocated a more hard-nosed approach to Ja-; Pat Choate, a former TRW Inc. economist o has been critical of Washington lobbyists Japanese interests; Clinton adviser Derek earer; and Dutch journalist Karel Van lferen, the author of a critical book on Ja-i. Gephardt also is trying to bring in Rob-W. Galvin of Motorola Inc. and other busi-s executives.

The group plans to hold regular sessions in coming months and exchange views with h government officials as U. S. Trade Rep-entative Mickey Kantor, Council of Econ-nic Advisers Chairwoman Laura D'Andrea son, and Labor Secretary Robert B. Reich. m B would try to take a more comprehen-e approach toward competitiveness than bilateral trade talks with Japan, which e proved frustrating for the U. S. They ar-e for such mechanisms as a retooled Super 301, which would ssure the President to name unfair trading partners and re-ate if they don't change their ways. But the group is even re interested in broad-gauged industrial policy-type reme-s, such as nurturing high-tech industries and civilian re-rch. "Let's have a thorough reevaluation as if economic and ional security are interrelated," says international trade ex-t Kevin Kearns, who first proposed the Team B approach vard Japan in a controversial article several years ago.

Gephardt and Co. may be able to enlist more allies within the Clinton Administration. Those being considered for top jobs in the Trade Representative's office and at Commerce include trade hard-liner Glen Fukushima, now an executive with AT&T in Japan, and Michael R. Wessel, Gephardt's senior trade adviser on the Hill. "Certainly, many of these names worry us," says one senior Japanese official.

Team B isn't the only idea around in Washington for reshaping U. S.-Japan relations, including narrowing the nearly $50 billion U. S. trade deficit with Japan. Senator Jay Rockefeller (D-W. Va.) is talking with Secretary of State Warren M. Christopher about setting up a White House review of U. S.-Japan relations. Rockefeller has avoided calling his group a Team B because of its negative connotations with free-traders. But he thinks such a group would send an important message to Tokyo. "The Japanese need to understand we are looking at a new relationship with them based on results," he declares.

RETHINKING JAPAN: INTERNATIONAL TRADE EXPERT KEVIN KEARNS (TOP), SENATOR JAY ROCKEFELLER, U.S. TRADE REPRESENTATIVE MICKEY KANTOR

'A CURIOUS IDEA.' Japan isn't the only country to feel the heat. On Feb. 1, Kantor threatened retaliation against the European Community unless the Europeans change their public procurement rules on telecommunications and other equipment. Coming on the heels of new dumping duties on European steel, headlines have been screaming across the Continent that Clinton's new policy is protectionistic. "The Americans claim to favor free trade," fumes Francis Mer, chairman of Europe's biggest steel company, Groupe Usinor Sacilor. "They have a curious idea of what is free and fair."

Washington may be playing a risky game with all these hawkish moves. Europe, especially, could be provoked into erecting barriers to U. S. exports, which have been a major growth engine for the American economy. "There's a mood being created here that can easily be turned on U. S. business overseas," worries Willard M. Berry, president of the European-American Chamber of Commerce.

It's also possible that Treasury Secretary Lloyd M. Bentsen and White House National Economic Council Chairman Robert E. Rubin could temper any protectionist leanings. Rubin's long friendship with EC Commissioner Sir Leon Brittan could be a plus. Brittan will meet with Kantor in Washington on Feb. 11.

And it is doubtful that the Administration will bend to every domestic industry's plea for protection. Clinton is no protectionist, his advisers insist. "We're not interested in building little fences around specific industries," says one senior Clinton trade adviser. "You start with a premise that you want certain industries to grow in certain ways, and you construct a policy on how to do it." That's not a bad description of how Japan and Europe have been operating.

By Douglas Harbrecht, with Amy Borrus, in Washington and Robert Neff in Tokyo

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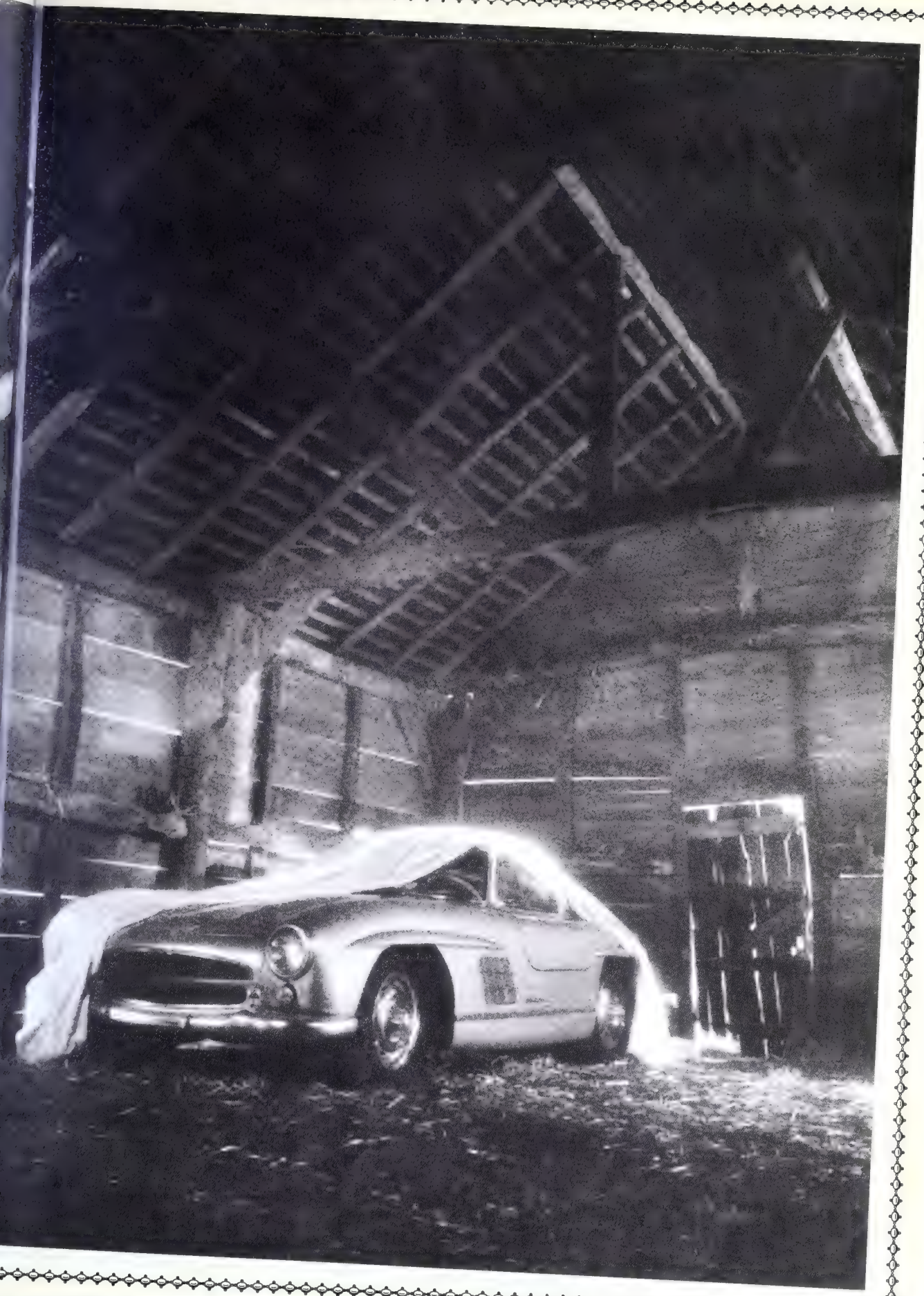


EVEN PHILIP MORRIS FEELS THE PULL OF GRAVITY

The giant, used to double-digit growth, faces slower increases in both tobacco and food

Times are tough in Marlboro Country. Jim Mantione, the proprietor of Jim's Smoke Shop in Patchogue, on New York's Long Island, doesn't mince words about the cigarette business. "Out here, there's a lot of people unemployed," says Mantione, who quit smoking a year ago. "So even though they prefer full-price brands, they'll buy something that's on sale."

That's not what William I. Campbell likes to hear. But the CEO of Philip Morris USA, the $12 billion division of Philip Morris Cos. that supplies 1,000 cartons of Marlboros to Jim's Smoke Shop each week, listens intently nonetheless. He and other Philip Morris executives are spending a cold January morning stopping at gas stations, smoke shops, and convenience stores on eastern Long Island. They're trying to gauge how stores are doing with "Marlboro Adventure Team," one of the new promotions Campbell is spearheading. Campbell, who had been in his job for 11 months when Michael A. Miles took over the parent company as chairman, knows small shopkeepers such as Mantione will tell him the truth about his business.

Miles seems less interested in making big acquisitions than in spurring growth by improved marketing, operations, and pricing

FLAGGING FLAGSHIP. And the truth is, business could be better. With smokers turning from high-priced brands, unit sales of full-priced or "premium" cigarettes fell five share points to 70% in 1992, while less-profitable deep discount cigarettes, such as Philip Morris' own Basic brand, grew to almost 15% of the domestic market. Campbell saw his flagship Marlboro's share fall to 24.5% in 1992 from 25.8% in 1991.

Campbell hastens to point out that Marlboro's share declined much less than his competitors' did. True—yet Philip Morris still sold 366 million fewer packs of Marlboro cigarettes in the U. S. in 1992 than in 1991. Since Philip Morris makes about 55¢ in profit on every pack of Marlboros—and only a nickel or so on a pack of discount cigarettes—that's a lot of profit lost. Domestic tobacco earnings grew 8.6% last year, and will grow just 6% this year, predicts tobacco analyst Gary Black at Sanford C. Bernstein & Co. That's well below the annual average gain of 14% in the late 1980s.

The slowdown in tobacco earnings comes just when Philip Morris' other divisions, Kraft General Foods and Miller Brewing, are feeling the pull of gravity, too (table). Last year, sales in the $267 billion U. S. food industry were flat. KG sales inched up just 0.4%, while earni rose 6%. Miller Brewing, a distant N to Anheuser-Busch Cos., saw its ea ings drop 14%. Overall operating pro at the $59 billion giant rose almost 1 to $11 billion. Impressive, but not fo company whose shareholders had co to expect annual gains of 20% or mo The stock, at 75 or so, hovers near price of a year ago.

So would Mike Miles have done a thing differently last year? "Yeah would have made the stock go up to instead of down to 74," he jokes. "Bu

hes were horses then beggars would
, as the saying goes."
Jo one's suggesting that Miles, chair-
n since August, 1991, has beggared
lip Morris. Many analysts and stock-
lers are still high on a company
se domestic tobacco business boasts
margins and whose food operations
sess some of the best-known brands
he world, including Kraft cheese,
-O, and Maxwell House coffee in the
S, and Toblerone chocolate and Ja-
s Suchard coffee and candy abroad.
But some have doubts about the com-
y's strategy of owning dominant
nds in essentially mature markets.
at troubles the skeptics especially is
acco. "We are currently not positive
ut the stock," says Eric Morrison,
ctor of research at Wilmington Trust
, which owns roughly 3 million
res. "We're concerned about the vol-
e of off-price cigarettes." Adds San-
l Bernstein's Black: "If two-thirds of
ir business is only growing at 6%,
pretty hard to get 18% growth over-
Shareholders are grumbling, too,
r stock performance at rival RJR Na-
o Inc. The discontent may prompt
to issue a separate class of stock
ged to the food business.
Dealing with murmurs of doubt is quite a change for Miles. The cerebral nonsmoker jumped to the chairman's office from the top spot at Kraft General Foods, the $20 billion food and beverage company that his predecessor Hamish Maxwell bought in consecutive pieces during the 1980s. Miles became accustomed to working for a company that received nothing but accolades from shareholders. And he did his bit, cleverly devising numerous line extensions for his food brands and even pushing through hefty price increases on the likes of Kraft Slices.

The 1990s are a different story. The Kraft cheese division, a $2.5 billion business, saw its operating profits drop 20% in 1992. Miles's successor as head of Kraft General Foods, Richard Mayer, had to cut prices to slow the relentless nibbling from numerous private-label cheeses around the country. Sealtest ice cream and Light 'n Lively yogurt are also battling store brands, but don't have enough cachet themselves to command premium prices. The $2.2 billion frozen-foods division has been restructured heavily once, and its president just resigned. Kraft's main frozen-food line, the $300 million Budget Gourmet brand, has been battered by the incursions of ConAgra Inc. Miles denies the ensuing rumors that he'll pull out of the market. "Everyone is losing money in the frozen-foods business right now," he says.

Unlike Maxwell, Miles, an adman and brand builder by training, seems uninterested in giant acquisitions for now. So how will he coax growth from the world's biggest portfolio of mature businesses? By doing what Miles and Mayer refer to as "blocking and tackling"—nitty-gritty improvements in operations, marketing, and pricing. During the past 14 months, for example, Mayer has consolidated the frozen-foods and Oscar Mayer meats divisions, laid off over 1,000 employees, and consolidated Kraft and General Foods distribution into one system.

ZERO FAT. In marketing, Mayer has been trying changes in promotion and advertising. With its Shake 'n Bake coating mix, brand managers scrutinized the marketing budget, decided heavy couponing was not increasing consumption, and instead boosted national advertising. Sales volume grew 30%. In the embattled cheese business, the company stuck to a 8% price cut despite a rise in production costs. More important, Mayer moved to counter ConAgra, which rolled out Healthy Choice zero-fat cheese. "It's selling like cement because it doesn't taste good," says Mayer. His solution: Healthy Favorites, reduced-fat cheeses launched last fall. ConAgra says its product is doing well.

In tobacco, Philip Morris is also looking hard at how it prices and markets its products. It has no choice. In the wake of a 1983 excise-tax hike, the prolonged recession, and price boosts that have pushed the average premium brand to $2.20 a pack, tobacco executives face an unprecedented loss of brand loyalty. "The consumer no longer comes in with a mental list of what he wants to buy," says Campbell. Tobacco companies have hurt their own profits by churning out discount brands that sell for half the price of premium brands but offer improved high-quality ingredients and attractive packaging.

Campbell is responding with a tricky strategy: a plan to lower the quality of cheap smokes, even while raising prices. "If the quality of the discount brands can come down, that's good," he says. He hopes to lure smokers back to Marlboro and gain half a share point, or $170 million in sales, for his flagship brand.

Raising prices on deep-discount cigarettes leaves Philip Morris vulnerable to an attack from R. J. Reynolds Tobacco Co.'s cut-price brands, Monarch and Best Value. But Campbell is holding out a promotional carrot as well as a pricing stick. To stem the decline of Marlboro

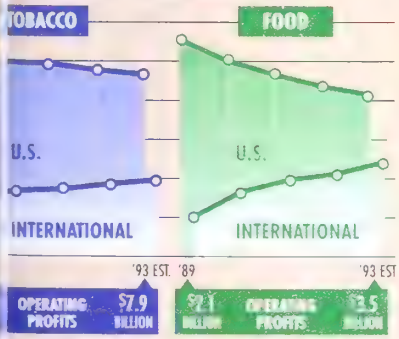
DECLINES IN SOME KEY PHILIP MORRIS BRANDS...

	1992 SUPERMARKET SALES	CHANGE FROM 1991
	123.9 BILLION	-5.6%
OUSE OFFEE	$333 MILLION	-16.6%
CESSED ES	$623 MILLION	-8.6%
	$340 MILLION	-3.8%

RETTES SOLD THROUGH ALL RETAIL OUTLETS

MEAN MORE GROWTH TO COME FROM OVERSEAS

PERCENT OF DIVISION PROFITS FROM U.S. AND ABROAD



MARKETING RESEARCH, COMPANY REPORTS, SANFORD C. BERNSTEIN & CO. BW

A FLASHY—AND COSTLY—MARLBORO PROMOTION WILL SEND SMOKERS OUTDOORSY GEAR AND TAKE WINNERS OF A DRAWING ON ADVENTUROUS TRIPS

CAMPBELL: CHEAP SMOKES ARE A THREAT

and slow sales of Basic and other discounted cigarettes, Campbell launched the Marlboro Adventure Team campaign in November. Although Campbell disputes it, industry executives say the promotion costs some $200 million.

Here's how it works: Smoke enough Marlboros and Philip Morris will send you free outdoorsy paraphernalia emblazoned with the Marlboro logo. Winners of a drawing get to go on a Marlboro-sponsored adventure vacation. More important, Philip Morris harvests the names of millions of smokers so it can bombard them with special offers.

For all the effort Philip Morris is putting into Marlboro and Kraft at home, it may never see the earnings growth the company will probably reap abroad in the 1990s. Sales at Philip Morris' international tobacco and food business jumped roughly 11% in 1992—and earnings jumped 20%. The company commands 25% of the tobacco market in the European Community, and that has been growing by half a share point a year. Latin America is rapidly being Marlboroized: The brand has a 25% share in Argentina and 30% in Mexico. The overseas coffee business is thriving in Europe and Asia. Even Oscar Mayer is doing well, thanks to changes in tastes abroad. "We've really been surprised by the growth of beef consumption in Japan," says Geoffrey Bible, executive vice president for international operations.

One consultant familiar with Philip Morris figures it will take five years before overseas operations are profitable enough to make up for the slowdown in the U.S. But Miles is hoping for a swifter return to the days of heavy growth. "Right now, the 1990s look tough," he says. "But things could turn around quickly." Until that turn, he has a lot of blocking and tackling to do.

By Laura Zinn, with Sunita Wadekar Bhargava in New York

PHILIP MORRIS' TOP LOBBYIST COULD USE A NEW ROLODEX

Call it a lobbyist's last hurrah. Even as top Bush Administration officials began looking for new jobs last November, Craig L. Fuller was trying to get their ears on behalf of Philip Morris Cos. and its Kraft General Foods subsidiary. Fuller had been George Bush's Chief of Staff when Bush was Vice-President. Now, as senior vice-president of corporate affairs at Philip Morris, Fuller was counting on his White House ties to soften proposed regulations on the claims food companies can make on their product labels.

Kraft feared the Food & Drug Administration's rules would force it to remove the term "light" from up to half of its products, or modify the products. With a Nov. 8 deadline looming, Fuller spoke with both White House Counsel C. Boyden Grey and Robert B. Zoellick, a top deputy of former Chief of Staff James A. Baker III. Such high-level intervention had some impact: It helped generate enough doubt for the White House to delay the publishing of the new regulations until early January. But when the rules finally came out, Kraft and its competitors were still the big losers.

OTHER VOICES. For Philip Morris, the episode illustrates a Beltway truism: Money buys access, but access can be fleeting. In hiring Fuller, Philip Morris was paying for almost unmatched access to the Bush White House. Now, though, the arrival of a Democratic Administration has left him with a largely outdated Rolodex. And rivals in Gucci Gulch can't help wondering just what else Fuller brings to the party. "These days, you're not looking for someone who can call Boyden Grey to get a veto," says Frank F. Mankiewicz, a prominent Democratic lobbyist who worked with Fuller at Hill & Knowlton, where he landed in 1990 after leaving Bush's staff.

The question is more than academic, because Philip Morris has placed much greater emphasis on lobbying to advance its interests since Michael A. Miles became CEO in 1991. Philip Morris' tobacco division doubled its number of statehouse lobbyists to 12. They are leading the drive against various state proposals such as plans to curb smoking in the workplace.

FULLER HAS GREAT CONTACTS—IN THE BUSH ADMINISTRATION

The new focus comes in the wake of the company's retreat from several high-profile public-relations efforts to build support among smokers or fight antismoking campaigns. It eliminated *Philip Morris Magazine*, an in-house publication mailed to 12 million smokers. And the company has been less vocal since its controversial 1991 campaign and tour commemorating the Bill of Rights.

Antismoking activists say that Philip Morris found that these bolder efforts sometimes backfired by giving their groups an opening to attack the company. "When they came out with some of the First Amendment strategies, they were easy to pick apart," says Scott Ballin, vice-president of the American Heart Assn. The ad blitzes were also pricey: The company says the Bill of Rights campaign cost $[illegible] million, though insiders say the total cost was closer to $100 million.

FIASCO. Not that Fuller comes cheap: He draws a yearly salary of $400,000 to $500,000, plus generous stock options, according to company insiders. And some PR experts question his skills as an image-maker. Last summer's Republican National Convention, which Fuller coordinated while on a leave of absence from Philip Morris, was widely derided as a fiasco for the GOP.

Fuller insists that Bush's defeat hasn't diminished his usefulness to Philip Morris: "Picking up the phone and talking to former colleagues was such a small part of my job," he says. And Miles claims Fuller is still valuable because he brings "a broad-gauge view of the business and because he has a reputation as a very nice guy." Sure, but that's what people also said about Fuller's old boss.

By Mark Landler in New York, with John Carey in Washington

To build the perfect 800 service,

you'd do exactly

what AT&T has done,

Follou

Sprint

GUARANTEED 800

It all started [redacted] with Sprint's bold first step. Creating none er than the first 100% digital, fiber-optic network nationwide. And putting nderground, for safety and reliability.

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THE BEST MUTUAL FUNDS

ONE LESSON FROM 1992'S WINNERS: FOR THE YEAR AHEAD, THINK SMALL

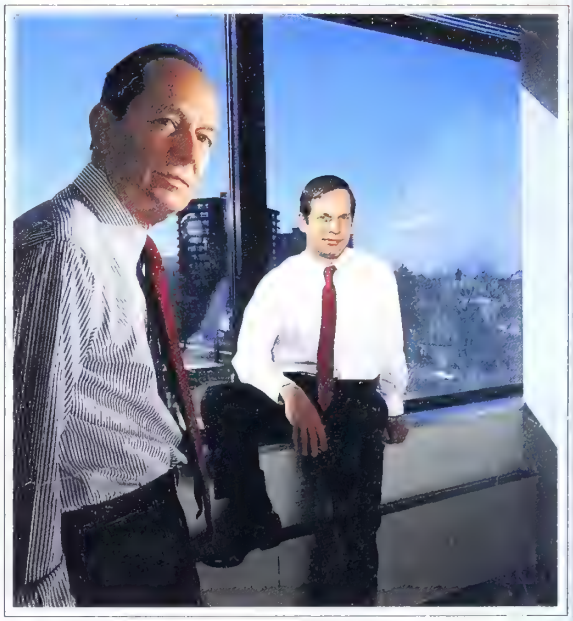
Nothing sells like success, and in 1992, investors poured a record $77.8 billion into equity mutual funds. Lured by the incredible returns of 1991 and disgusted with paltry yields at the banks, they pinned their hopes on fund managers such as James P. Craig, whose Janus Fund picked up some $2.8 billion in new money in 1992. But instead of 1991's dazzling 42.8% total return, Janus mustered only 6.9% in 1992—a shade under the Standard & Poor's 500-stock index' 7.6%. "We missed our performance targets," sighs Craig, who aims to land Janus in the top 25% of all funds. "But it wasn't a disaster, either."

Craig's assessment rings true across a wide swath of the funds in the BUSINESS WEEK Mutual Fund Scoreboard. By and large, investors didn't get that hoped-for 40%, but they can't complain about their results. In addition, most of the new money that flowed into the funds in 1992 was already in place by the time the market rallied in the fourth quarter.

The Scoreboard shows that the average diversified fund investing in US

HOW A HANDFUL OF TOP MANAGERS WORKED THEIR MAGIC

ROBERT HABER
FIDELITY INVESTMENTS
Haber's balanced funds combine stocks and bonds. What sets them apart from most balanced funds are Haber's unconventional stock picks, such as chipmaker Advanced Micro Devices



WILLIAM LIPPMAN AND BRUCE BAUGHMAN
FRANKLIN RISING DIVIDENDS FUND
What ties Lippman's and Baughman's stock picks together is a track record of steadily rising dividends—and obscurity. Because the stocks aren't well known, says Lippman, the pair can buy in before Wall Street discovers them

ELIZABETH BRAMWELL, GABELLI GROWTH FUND
Bramwell clings to health-care stocks while many shun them, and Johnson & Johnson is her largest holding. Her fund also owns Home Depot, the specialty retailer with a sky-high p-e ratio of 65

ks delivered a respectable 9.2% total rn in 1992, besting the S&P 500 by 1.6 entage points. Throw in sector funds long-suffering international funds, the all-equity fund average drops to . just a fraction behind the S&P 500. ut the Scoreboard goes far beyond pping 1992's results. With these ta-, investors and would-be investors delve into a wealth of material, in-ing 3-, 5-, and 10-year returns; per-ance trends; sales charges and fund ense ratios; largest holdings and lev-f risk. And to help you pull the data ther, the Scoreboard also awards gs to funds based on their five-year l return, adjusted for risk. These rietary ratings, which were pre-d for BUSINESS WEEK by Morning-Inc., do what mere performance bers can't. By adjusting returns for a volatile biotechnology fund's per-ance can be measured against that staid income fund.

RLAP. An analysis of longer-term l performance and underlying fac-in the stock market suggests that e trends that emerged during 1992 continue into 1993. Among them: a ng showing by funds that invest in ll- to middle-capitalization companies funds that buy so-called value ks—shares of out-of-favor compa-with good balance sheets or attrac-assets. These two categories are not ually exclusive. Heartland Value d, for instance, the year's best small-pany fund, is also a value fund.

e Scoreboard also shows that risk-se investors hungry for yield should ider utility, balanced, equity-income, income funds. More than a third of funds awarded three upward-point-arrows, the top BUSINESS WEEK rat-are in these categories. Among the s are Fidelity Utilities Income Fund, ner Dividend Fund, and Stratton thly Dividend Shares. "We're like a l fund, except we have potential for tal appreciation and dividend vth," says Gerard E. Heffernan, co-ager of the Stratton fund, two-ls of which is in utilities.

any investment advisers believe e's also opportunity in a few of the er performers of late—the overseas s. Foreign stocks have underper-ed U. S. stocks for four years. But e of the best values in stocks are ore," says Robert D. Bingham of ham, Osborn & Scarborough, a San cisco investment adviser specializ-n mutual funds. Among the interna-l funds recommended by advisers financial planners are Harbor Inter-nal Fund, T. Rowe Price Interna-l Stock Fund, EuroPacific Growth d, and Templeton Foreign Fund. The eboard reports on 80 international ls, now grouped geographically.

THE TOP PERFORMERS

Of the 760 funds in BUSINESS WEEK's Mutual Fund Scoreboard, these 44 have earned three upward-pointing arrows, the highest rating for risk-adjusted performance over the past five years

Fund	Average annual total return*	Investment objective	Risk
COLONIAL UTILITIES A	14.2%	Utilities	Very low
FIDELITY ADVISOR INCOME & GROWTH	16.5	Balanced	Very low
FIDELITY BALANCED	13.5	Balanced	Very low
FIDELITY CONTRAFUND	26.4	Growth	Low
FIDELITY SELECT BIOTECHNOLOGY	31.0	Health care	High
FIDELITY SELECT FOOD & AGRICULTURE	22.3	Specialty	Low
FIDELITY SELECT RETAILING	28.5	Specialty	High
FIDELITY SELECT UTILITIES	16.9	Utilities	Very low
FIDELITY UTILITIES INCOME	14.6	Utilities	Very low
FINANCIAL STRATEGIC FINANCIAL SERVICES	26.9	Financial	Average
FINANCIAL STRATEGIC HEALTH SCIENCES	30.8	Health care	High
FINANCIAL STRATEGIC LEISURE	24.4	Specialty	Average
FORTRESS UTILITY	14.7	Utilities	Very low
FPA PERENNIAL	15.9	Growth/income	Very low
FRANKLIN RISING DIVIDENDS	16.4	Growth/income	Very low
GABELLI ASSET	16.4	Growth	Low
GABELLI GROWTH	21.8	Growth	Low
GATEWAY INDEX PLUS	14.3	Growth/income	Very low
HANCOCK FREEDOM REGIONAL BANK B	23.9	Financial	Low
INCOME FUND OF AMERICA	13.7	Income	Very low
JANUS	20.9	Growth	Low
JANUS TWENTY	25.5	Growth	Average
JANUS VENTURE	21.3	Small company	Low
KAUFMANN	34.3	Max. growth	High
LINDNER DIVIDEND	14.9	Income	Very low
MUTUAL BEACON	15.0	Growth	Very low
MUTUAL BENEFIT	17.4	Growth	Low
MUTUAL QUALIFIED INCOME	14.8	Growth/income	Very low
MUTUAL SHARES	14.7	Growth	Very low
NATIONAL INCOME & GROWTH A	14.2	Balanced	Very low
PAINEWEBBER REGIONAL FINANCIAL GROWTH A	23.1	Financial	Average
PAX WORLD	13.4	Balanced	Very low
PRUDENTIAL UTILITY B	15.4	Utilities	Very low
PUTNAM CORPORATE	9.4	Income	Very low
SHEARSON PREMIUM TOTAL RETURN B	17.0	Equity-income	Low
SKYLINE SPECIAL EQUITIES	25.1	Small company	Average
STRATTON MONTHLY DIVIDEND SHARES	13.3	Equity-income	Very low
USAA MUTUAL INCOME	12.2	Income	Very low
VANGUARD PREFERRED STOCK	12.3	Income	Very low
VANGUARD SPECIALIZED HEALTH CARE	23.5	Health care	Low
VISTA CAPITAL GROWTH	26.4	Growth	Average
VISTA GROWTH & INCOME	32.1	Growth/income	Low
WEITZ VALUE	14.3	Growth	Very low
WELLESLEY INCOME	13.5	Income	Very low

*1988-92; includes appreciation plus reinvestment of dividends and capital gains

DATA MORNINGSTAR INC.

World funds may include some U. S. stocks, but foreign funds do not, nor do regional funds that invest in Europe or the Pacific Rim.

Unlike the '80s, when the S&P 500 index left most fund managers in the dust, more funds are now beating the bogey. Yet it's not necessarily because managers are getting smarter. In those days, big stocks held sway on Wall Street, so the funds' penchant for smaller stocks kept their returns in check, and they couldn't beat the market indexes.

Now, investor preference has turned to small and midsize companies, which gives the funds added lift. Indeed, investors' huge appetite for funds is becoming a self-fulfilling prophecy. The more investors put into equity funds, the better the price performance of small- to mid-cap stocks. That means big things for this end of the stock market, since the word on January mutual-fund sales is that they're even bigger than any month in 1992.

The biggest beneficiaries of the shift to small- and mid-cap stocks are the small-company funds, up 12.6% for the year. The tilt to small stocks is also helping some maximum-growth funds, especially ones such as Kaufmann Fund, which invest mainly in small-company stocks, and technology funds, which seek out small, emerging growth companies. But lesser-known issues are also showing up in unlikely places, such as

growth-and-income funds, where big-cap stocks usually dominate.

One growth-and-income, Franklin Rising Dividends Fund, which nabbed three north-pointing arrows, invests in relatively unknown midsize companies. The largest holding is in Mercury General Corp., "an auto-insurance underwriter that you've probably never heard of unless you insure your car in California," says William J. Lippman, the fund's co-manager. Other large holdings are equally obscure: Arnold Industries Inc., a trucker; and Dibrell Brothers Inc., a tobacco-leaf distributor. For Lippman and co-manager Bruce C. Baughman, what ties them together is their track record of steadily rising dividends—and their obscurity. Because these stocks are not well known, says Lippman, his firm can buy before they're "discovered" by Wall Street.

Consider two other top-rated funds, Fidelity Advisor Income & Growth Fund and Fidelity Balanced Fund, both managed by Robert J. Haber. They're balanced funds, combining stocks and bonds. But where they differ from most balanced funds is in the stocks Haber chooses. The largest equity holding in each is Advanced Micro Devices Inc., a semiconductor manufacturer with a market capitalization of $1.6 billion. The equity holdings of most balanced funds are large-cap stocks, such as Philip Morris Cos. and Royal Dutch Petroleum Co. In part, Haber attributes his higher returns to a bias for small- and midsize companies with "strong balance sheets and high dividends"—buzzwords for value stocks.

Leadership in the mutual-fund lineup is shifting from those that invest in growth stocks to ones that like value stocks. Don't confuse a growth-investment style with growth, the objective of 233 of the funds in the Scoreboard. Both value and growth funds invest for capital appreciation. The method is what makes them different.

SOLID RETURNS FOR MOST GROUPS

Fund objective	Total return* 1992	1990-92†	1988-92†	1983-92†	Best-performing fund in 1992
FINANCIAL	41.3	24.1	23.1	17.7	Fidelity Sel. Savings & Loan
TECHNOLOGY	14.1	19.0	16.7	11.9	Fidelity Sel. Software/Computer
SMALL COMPANY	12.6	15.5	18.0	12.7	Heartland Value
SPECIALTY	11.4	16.3	21.4	NA	Fidelity Sel. Automotive
INCOME	10.5	11.2	12.5	13.1	Lindner Dividend
UTILITIES	10.1	9.4	15.4	14.5	Colonial Utilities A
EQUITY-INCOME	9.6	9.1	13.2	13.7	Pioneer Equity-Income
GROWTH/INCOME	8.8	10.4	14.1	14.1	Mutual Qualified
ASSET ALLOCATION	8.7	10.2	11.2	16.5	Fidelity Asset Manager: Growth
GROWTH	8.5	12.2	15.8	14.1	Oakmark
MAXIMUM GROWTH	6.9	13.9	17.0	12.7	Thomson Opportunity B
BALANCED	7.2	9.9	12.2	12.9	Evergreen Foundation
NATURAL RESOURCES	3.4	0.7	8.9	9.9	American Gas Index
WORLD	−0.4	1.3	8.2	12.7	Janus Worldwide
FOREIGN	−3.0	−0.3	7.4	14.7	Twentieth Century Intl. Equity
EUROPE	−5.8	−1.8	5.9	NA	Alliance New Europe A
PACIFIC	−6.6	−5.4	3.7	16.8	Newport Tiger
HEALTH CARE	−11.2	21.8	23.2	17.6	Merrill Lynch Healthcare A
PRECIOUS METALS	−15.4	−14.7	−7.9	−2.7	Fidelity Sel. American Gold
U.S. DIVERSIFIED FUNDS	9.2	12.1	15.7	13.8	
ALL EQUITY FUNDS	7.4	10.4	14.2	13.4	
S&P 500	7.6	10.8	16.1	16.2	

*Appreciation plus reinvestment of dividends and capital gains †Average annual
NA = Not available DATA MORNINGSTAR INC

Growth-stock funds buy into companies that have higher-than-average earnings growth, that dominate their markets, and don't need a lot of help from the economic cycle to turn a profit. Growth stocks and funds that invest in them, like many of those managed by Twentieth Century Investors Inc., had the upper hand in 1989, 1990, and 1991—but fell on their faces in 1992.

Value stocks, and funds that invest in them, usually need a lift from the economy and can be bought on the cheap when it's hurting. These include the shares of auto makers, steelmakers, homebuilders, and banks. Value-stock funds have been laggards since 1988, but in 1992, they led the pack.

Growth vs. value may sound lik in-vestment doublespeak, but it's not. I professional investors—mutual f managers included—follow one or other investment philosophy. Lool Mario J. Gabelli, one of Wall Str best-known value investors, who ra ages the top-rated Gabelli Asset F When Gabelli decided to start a gro stock fund, he turned to Elizabet Bramwell, a securities analyst and mer classmate at Columbia Univers Graduate School of Business, to ope the fund. "It would be confusing if ple saw me managing a growth fu says Gabelli. "That's not what known for."

The funds couldn't be more differ Bramwell, for instance, still cling health-care stocks while many ot shun them, and Johnson & Johnso her largest holding. She also h shares of Home Depot Inc., the speci retailer with a stratospheric price-e ings ratio of 65, and makes no apolo for investing in a slew of initial pu offerings.

TROUBLED WATERS. Gabelli cares l for earnings-growth rates. He has b loading up on battered American press Co., betting that new CEO Har Golub can overcome boardroom tur and invigorate one the world's known franchises. Among Gabelli's er big holdings are companies with h profile franchises but troubled cur earnings, such as Time Warner Inc. Paramount Communications Inc.

Because growth stocks have be value stocks over the past five ye Bramwell's Gabelli Growth Fund has better record, up an average 21.8%, 16.1% for the S&P 500. But in 1992, value-driven Gabelli Asset Fund had upper hand with 14.9%, besting growth fund's mere 4.5%. But if v stocks keep their lead over gro stocks—as many market analysts lieve they will—the funds' longer-t averages will converge.

Yet Gabelli Asset already has same high BUSINESS WEEK rating as belli Growth. That's not a fluke. Rati are based on risk-adjusted total ret And value funds, because they're buy "cheap" stocks, typically have much l er risk than growth-stock funds. H returns of many growth-stock fu when adjusted for risk, don't alw make the cut.

Of the 44 Scoreboard funds ear the top rating, 34 have "very low" "low" risk. They include value-orien funds, such as FPA Perennial F Weitz Value Fund, Vista Growth & come Fund, and three funds run by ue investor Michael Price: Mutual E con Fund, Mutual Shares Fund,

tual Qualified Fund. Price's funds in- t in, among other things, bankrupt- and distressed securities. His big- t success in recent years was a $60 ion investment in once bankrupt Sun- m-Oster Co. "We took out $30 mil- , and our holdings are still worth veen $500 and $600 million," he says. or investors who can take bigger s, such as those in many sector ds, the rewards can be bountiful. ds that focus on financial-service panies—banks, thrifts, brokers, in- tment managers, and insurers— bbed the spotlight, up 41.3%. The panies they invest in benefited from ng interest rates, bull markets in fi- cial assets, and a hoped-for upturn in insurance business. Technology ds finished second, with a 14.1% re- , on the strength of big winners, as semiconductor manufacturer In- Corp. and software giant Microsoft p., whose wares dominate the per- al-computer market.

ealth-care funds, the leading sector the 1989-91 period, took ill in 1992, n 11.2%. But even with a woeful 2, health-care funds still led other l categories in three- and five-year rns, and those returns are high gh that three health-care funds e hung on to their top ratings. Some ers think this could be an opportuni- to buy into depressed health-care ds. Says Edward Owens, who runs guard Specialized Health Care Fund: e need for what health-care compa- provide is not going away."

TOM-FISHING? The sell-off in health- stocks took a lot more than sector ds down the tubes. Many diversified ds owed a lot of prior years' success- o drug, biotechnology, and medical- ipment stocks, and they gave back s during 1992. Among them were Janus and Gabelli Growth funds.

Whether you're bottom-fishing for th-care funds or looking for a sturdy dend-producing investment, you'll what you need in the Mutual Fund eboard. Turn to page 80, and look FPA Perennial Fund, the upper third of page. It's a fund th noting, since it three up arrows to it, indicating su- or risk-adjusted per- nance. The worst ng is three down ar- s, which you can a few lines below Franklin Gold Fund. cious-metals funds the only type of d with long-term ative returns.

ove on to the next mn: "Objective."

HOW BUSINESS WEEK RATES THE LARGEST FUNDS

Fund	Assets Billions	BW rating	Average annual total return*
FIDELITY MAGELLAN	$22.3	↑↑	18.9%
INVESTMENT COMPANY OF AMERICA	15.4	↑	14.9
WASHINGTON MUTUAL INVESTORS	10.1	AVG	14.6
WINDSOR	8.8	↓	13.4
VANGUARD INDEX 500	6.5	↑	15.6
INCOME FUND OF AMERICA	6.5	↑↑↑	13.7
FIDELITY PURITAN	5.9	↑↑	13.9
JANUS	5.8	↑↑↑	20.9
AIM WEINGARTEN	5.6	AVG	18.3
WELLINGTON	5.6	↑	12.9
WINDSOR II	5.4	↑	15.6
TWENTIETH CENTURY ULTRA INVESTORS	5.3	AVG	26.2
DEAN WITTER DIVIDEND GROWTH	5.0	↑	14.9
FIDELITY EQUITY-INCOME	5.0	AVG	13.1
TWENTIETH CENTURY GROWTH INVESTORS	4.9	↓	18.0
FIDELITY GROWTH & INCOME	4.8	↑↑	18.6
AMERICAN MUTUAL	4.7	↑	12.8
TWENTIETH CENTURY SELECT INVESTORS	4.7	↓	13.0
GROWTH FUND OF AMERICA	4.3	AVG	16.6
PIONEER II	4.1	AVG	12.5

LEGEND: ↑↑↑ Superior ↑↑ Very good ↑ Above average AVG Average ↓ Below average ↓↓ Poor ↓↓↓ Very poor

*1988-92; includes appreciation plus reinvestment of dividends and capital gains DATA MORNINGSTAR INC

Here, you learn that FPA Perennial is a growth-and-income fund, meaning it buys stocks for capital appreciation and to generate income. That differs from growth funds, for instance, where dividends are of little concern. FPA Perennial, with $76.3 million in assets, is small. (The Scoreboard includes 760 funds, down to $42.8 million in size, representing about 98% of all equity-fund assets.) FPA Perennial gained 22% in assets last year—a boom year for mutual-fund sales. That may signify that the fund is "undiscovered."

Moving to the right, you may find out why the fund hasn't attracted more money. The sales charge is stiff—a 6.5% "load" at the time of investment. But that doesn't cover the cost of portfolio managers, analysts, administration, and record-keeping. Those numbers are found in the expense ratio, which is 1.15%. That means that about $1.15 of every $100 in the fund goes toward overhead. The average expense ratio is a little higher—1.27%.

The next column, "Current Results," addresses 1992. Total return—appreciation plus reinvestment of dividends and capital gains—was 13.1%. The "yield" figures to the right, 2.3, indicates that 2.3% of that 13.1% came from income paid to fund investors. The last column, "Rank within Objective," is telling, too. FPA Perennial ranked 19 out of 118 growth-and-income funds.

A great year, no doubt. But what about past years? Move on to the next page for longer-term returns. How do they stack up against other funds? The "Trend" boxes give you a clue. Each one represents a 2½-year period, and in this case, the fund wasn't exactly a chartbuster. In the past five years, for instance, it was in the third quartile of all funds. Why so sluggish?

Remember that growth-stock funds led the fund world in most of the past five years, and the "Portfolio Data" section indicates that this is a value fund. First, the turnover—an indicator of trading activity—is low. Value investors often sit for years with their holdings. Next, the 22% cash is high, indicating that the manager is having a hard time finding cheap stocks. Next, the price-earnings ratio is 18.5. That may look high, but there aren't many funds in the Scoreboard that are much lower. The next column gives you the largest holding, Lubrizol Corp., and the percentage of assets invested in it (3%). Finally, there's risk—a major concern for most investors. FPA Perennial's about as low as it gets for an equity fund.

Have other questions? You can contact the fund you're interested in directly. We've listed telephone numbers. You may not be ready to start investing, but with what you already know from the Scoreboard, you can be well on your way.

By Jeffrey M. Laderman in New York

Many specialized 'sector' funds posted eye-popping returns. Funds that focus on financial-service firms were up 41.3%. But health-care funds got sick—and sank 11.2%

Next week, BUSINESS WEEK's Mutual Fund Scoreboard looks at bond funds.

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE ASSETS $ MIL.	SIZE % CHG. 1991-92	FEES SALES CHARGE (%)	FEES EXPENSE RATIO (%)	CURRENT RESULTS 1992 TOTAL RET. (%)	CURRENT RESULTS 1992 YIELD	RA
AARP CAPITAL GROWTH		Growth	491.4	73	No load	1.13	4.7	0.4	2
AARP GROWTH & INCOME	▲	Growth/income	881.1	92	No load	0.91	9.2	3.1	7
ABT GROWTH & INCOME		Growth/income	84.1	−11	4.75	1.23†	3.3	2.3	7
ABT UTILITY INCOME	▲	Utilities	142.8	−5	4.75	1.15†	10.4	4.8	
ACORN 👤	▲	Small company	1449.0	26	2.00*‡	0.71	24.2	1.2	
ADVANTAGE GROWTH	▲	Growth	56.8	39	4.00**	2.10†	8.0	0.4	
ADVANTAGE INCOME	▲ ▲	Income	56.8	15	4.00**	2.05†	8.1	4.3	
AFFILIATED	AVG	Growth/income	3805.8	6	5.75	0.58†	12.5	3.6	
AIM CHARTER 👤	▲ ▲	Growth/income	1358.1	131	5.50	1.17†	1.1	1.9	
AIM CONSTELLATION 👤	AVG	Maximum growth	890.0	196	5.50	1.20†	15.0	0.0	
AIM GROWTH(C) (a)		Growth	162.4	−6	5.50	1.19†	0.2	0.4	2
AIM SUMMIT	▲	Growth	529.2	20	8.50	0.74	4.5	1.0	
AIM UTILITIES(C) (b)		Utilities	105.0	28	5.50	1.21†	7.9	4.8	
AIM VALUE(C) (c)	▲ ▲	Growth/income	187.5	45	5.50	1.19†	16.4	0.6	
AIM WEINGARTEN 👤	AVG	Growth	5608.8	70	5.50	1.10†	−1.4	0.5	2
ALGER SMALL CAPITALIZATION	▲ ▲	Small company	230.2	185	5.00**	2.20†	4.0	0.0	
ALLIANCE A		Growth	794.7	6	5.50	0.83†	14.7	0.7	
ALLIANCE BALANCED SHARES A		Balanced	143.9	−7	5.50	1.42†	6.8	3.2	
ALLIANCE COUNTERPOINT	▲	Growth	71.8	13	5.50	1.62†	4.6	0.8	1
ALLIANCE GLOBAL SMALL CAP A		World	61.3	−26	5.50	2.28†	−4.9	0.0	
ALLIANCE GROWTH & INCOME A	AVG	Growth/income	427.0	0	5.50	1.14†	4.5	2.3	1
ALLIANCE INTERNATIONAL A 👤		Foreign	150.1	−27	5.50	1.82†	−5.9	0.3	
ALLIANCE NEW EUROPE A		Europe	80.9	−28	5.50	2.23†	−0.5	1.7	
ALLIANCE QUASAR A		Maximum growth	252.1	−24	5.50	1.62†	2.8	0.0	
ALLIANCE TECHNOLOGY		Technology	152.5	−2	5.50	1.53†	15.5	0.0	
AMCAP 👤		Growth	2939.9	8	5.75	0.75†	7.2	1.1	1
AMERICAN BALANCED 👤	▲ ▲	Balanced	1066.5	66	5.75	0.82†	9.5	4.8	
AMERICAN CAPITAL COMSTOCK A	AVG	Growth/income	959.4	−3	5.75	0.82†	6.5	1.8	
AMERICAN CAPITAL EMERGING GROWTH A		Small company	391.8	13	5.75	1.14†	9.7	0.0	
AMERICAN CAPITAL ENTERPRISE A	AVG	Growth	738.3	4	5.75	0.97†	8.4	1.0	1
AMERICAN CAPITAL EQUITY-INCOME A	▲	Equity-income	123.7	20	5.75	1.02†	10.7	3.8	
AMERICAN CAPITAL GROWTH & INCOME		Growth/income	179.8	5	5.75	1.14†	9.5	2.5	
AMERICAN CAPITAL PACE A		Growth	2447.2	−6	5.75	1.00†	4.4	1.0	1
AMERICAN GAS INDEX		Natural resources	162.8	12	No load	0.85	11.4	3.9	
AMERICAN GROWTH 👤		Growth	57.5	0	8.50	1.46	12.6	0.9	
AMERICAN INVESTORS GROWTH		Growth	46.1	−23	4.50	1.63	−12.4	0.0	2
AMERICAN LEADERS		Growth/income	188.5	17	4.50	1.06	11.7	1.9	
AMERICAN MUTUAL 👤	▲	Growth/income	4709.6	9	5.75	0.63†	7.8	4.0	
AMERICAN NATIONAL GROWTH		Growth	115.9	5	6.25	0.99	−3.4	0.6	2
AMERICAN NATIONAL INCOME	▲	Equity-income	108.4	28	6.25	1.19	3.3	2.3	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available NM = Not me
(a) Formerly CIGNA Growth Fund (b) Formerly CIGNA Utilities Fund (c) Formerly CIGNA Value Fund

HOW TO USE THE TABLES

BUSINESS WEEK RATING

Ratings are based on five-year risk-adjusted performance, relative to the S&P 500. Performance is calculated by subtracting a fund's risk-of-loss factor (see RISK) from historic total return. To get a positive rating, a fund must beat the S&P 500 on a risk-adjusted basis

- ▲ ▲ ▲ Superior performance
- ▲ ▲ Very good performance
- ▲ Above-average performance
- AVG Average performance
- Below-average performance
- Poor performance
- Very poor performance

MANAGEMENT CHANGES

Symbols after some fund names are a useful aid in assessing performance.

👤 indicates that the fund's current manager has held that job for 10 years.

indicates that fund management has changed since Dec. 31, 1991.

S&P 500 COMPARISON

Here are total return figures for the S&P 500 for the four time periods that appear in the tables:

1992	7.6%
Three-year average (1990-92)	10.8%
Five-year average (1988-92)	16.1%
Ten-year average (1983-92)	16.2%

SALES CHARGE

The cost of buying a fund, commonly called the "load." Most funds take loads out of initial investments, and for rating purposes, performanc duced by the amount of these charges. Whe are levied on withdrawals, they can take two Deferred charges decrease over time. Rede fees arise when investors sell shares.

EXPENSE RATIO

Expenses for 1992 as a percentage of averc assets. This ratio measures how much shareh pay for fund management. Footnotes indicc a fund has a 12(b)-1 plan. This plan allocates holder money for distribution costs.

OBJECTIVE

Many funds specialize in one sector, whic dicated in this column. World funds may inclu stocks, while foreign, Europe, and Pacific fu not. Otherwise, funds are grouped as follows *allocation:* Seeks returns by moving money

SCOREBOARD

EQUITY FUNDS

RESULTS: ANN'L TOTAL RET. (%) 5 YEARS	10 YEARS	TREND: BW 10-YEAR ANALYSIS	PORTFOLIO DATA: TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING: COMPANY	% ASSETS	RISK	TELEPHONE: TOLL FREE (800)	IN-STATE
16.1			High	8	21.5	Microsoft	4	High	253-2277	MA 617-330-5400
13.7			Low	16	19.4	United Technologies	3	Low	253-2277	MA 617-330-5400
10.9	12.6		Average	12	21.3	IBM	3	Average	553-7838	FL 407-655-7255
13.6	11.8		Average	4	15.1	FPL Group	5	Low	553-7838	FL 407-655-7255
18.7	17.3		Low	5	28.3	Intl Game Technology	5	Average	922-6769	
15.5			Low	4	21.9	State Street Boston	2	Average	523-5903	MA 617-742-9858
12.0			Average	2	16.5	Cedar Fair	2	Very low	523-5903	MA 617-742-9858
12.6	14.6		Average	8	19.9	General Electric	3	Average	874-3733	NY 212-848-1800
16.7	14.8		High	7	20.3	Pfizer	2	Low	347-1919	TX 713-626-1919
24.7	18.4		Average	4	25.2	US Surgical	1	High	347-1919	TX 713-626-1919
13.1	12.2		Average	3	25.2	Philip Morris	4	High	347-1919	TX 713-626-1919
18.5	13.0		High	1	23.5	Banc One	2	Average	347-1919	TX 713-626-1919
			Very high	4	15.4	Gulf States Utilities	7		347-1919	TX 713-626-1919
22.0			High	12	24.5	Texas Instruments	3	Average	347-1919	TX 713-626-1919
18.3	18.0		Low	5	25.3	Philip Morris	4	Average	347-1919	TX 713-626-1919
27.1			Very high	11	32.4	BMC Software	3	High	992-3863	NJ 201-547-8320
16.2	13.0		Average	5	21.9	Philip Morris	5	High	227-4618	NJ 201-319-4000
10.8	13.5		Average	5	20.8	Philip Morris	3	Average	227-4618	NJ 201-319-4000
16.4			Average	0	19.8	Philip Morris	6	Average	227-4618	NJ 201-319-4000
7.5	7.8		High	−1	18.7	News International	2	Very high	227-4618	NJ 201-319-4000
13.9	14.8		Average	3	20.5	Philip Morris	3	Low	227-4618	NJ 201-319-4000
6.6	14.2		Average	2	26.7	News International	7	High	227-4618	NJ 201-319-4000
, not rated			Low	3	16.5	News International	8		227-4618	NJ 201-319-4000
11.9	12.7		High	2	19.4	Collective Bancorp	2	Very high	227-4618	NJ 201-319-4000
13.0	14.3		High	16	30.9	Intel	6	Very high	227-4618	NJ 201-319-4000
14.3	13.7		Very low	10	22.5	Medtronic	5	Average	421-0180	CA 213-486-9200
13.0	13.9		Low	6	20.8	Dun & Bradstreet	2	Very low	421-0180	CA 415-421-9360
15.3	12.4		Low	4	23.1	Philip Morris	2	Low	421-5666	TX 713-993-0500
19.2	12.3		Average	7	33.7	Cisco Systems	3	High	421-5666	TX 713-993-0500
16.6	13.5		High	6	28.4	BMC Software	2	Average	421-5666	TX 713-993-0500
12.8	12.0		Average	11	21.7	Philip Morris	2	Low	421-5666	TX 713-993-0500
12.7	12.3		High	5	22.2	Philip Morris	3	Average	421-5666	TX 713-993-0500
13.2	11.8		Average	8	25.5	Wal-Mart Stores	2	Average	421-5666	TX 713-993-0500
			Very low	1	19.4	Enron	5		343-3355	MD 301-657-1500
11.9	9.7		Average	1	27.5	Affiliated Bankshares Colo	6	Low	525-2406	CO 303-623-6137
8.5	3.0		Very high	1	25.6	Synergen	6	Very high	243-5353	CT 203-531-5000
12.5	15.0		Average	7	16.6	Phelps Dodge	3	Average	245-5051	PA 412-288-1900
12.8	14.5		Low	5	21.8	AT&T	2	Low	421-0180	CA 213-486-9200
11.0	10.6		Average	1	25.0	Schering-Plough	4	Average	231-4639	TX 409-763-2767
13.6	12.6		Average	3	19.6	American Home Products	3	Low	231-4639	TX 409-763-2767

DATA: MORNINGSTAR INC.

onds, and cash; some also use gold, real es- l foreign stocks. *Balanced:* Attempts to max- urn by buying both stocks and bonds. *Equity-* Aims to achieve maximum income by buying d stocks. *Growth:* Seeks long-term growth, me secondary. *Growth/income:* Tries to com- ital appreciation and current income. *Income:* aximize current income and may sometimes -income securities. *Maximum growth:* Takes sks; may borrow money, sell short, and buy

RETURN

net gain to investors, including reinvestment nds and capital gains at month-end prices.

relative performance during the four 30- eriods from Jan. 1, 1983, to Dec. 31, 1992.

Boxes read from left to right, and the level of green indicates performance relative to all other funds during the period: ■ for the top quartile; ■ for the second quartile; ■ for the third quartile; and □ for the bottom quartile. An empty box indicates no rating for that time period.

TURNOVER

Trading activity, the lesser of purchases or sales divided by average monthly assets. High turnover can raise expenses.

% CASH

The portion of a fund's assets not currently invested in stocks or bonds. A negative figure can occur as a result of a pending capital gains distribution.

PRICE/EARNINGS RATIO

The average, weighted price/earnings ratio of stocks in a fund's portfolio, based on trailing 12-month earnings.

RISK

The potential for losing money in a fund, or risk-of-loss factor. To derive each fund's level of risk, the monthly Treasury bill return is subtracted from the monthly total return for each fund for each of the 60 months in the rating period. When a fund has not performed as well as Treasury bills, this monthly result is negative. The sum of these negative numbers is then divided by the number of months. The result is a negative number, and the greater its magnitude, the higher a shareholder's risk of loss. This number is the basis for BW ratings and the RISK column. The designations in this column are assigned according to a normal statistical distribution.

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS		
			ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	1992 TOTAL RET. (%)	1992 YIELD	RA
AMERICAN PERFORMANCE EQUITY		Growth	87.1	0	4.00	1.16†	−3.2	1.7	2
ANALYTIC OPTIONED EQUITY	▲	Growth/income	92.9	−9	No load	1.20	6.2	2.3	6
ARCH CAPITAL APPRECIATION INVESTOR		Growth/income	243.8	22	4.50	0.67	10.5	1.7	7
ASO OUTLOOK GROUP EQUITY		Growth	112.1	221	4.50	1.01	10.3	2.3	6
BABSON ENTERPRISE	▲ ▲	Small company	184.3	38	No load‡	1.17	24.6	0.5	
BABSON GROWTH		Growth	244.6	−5	No load	0.86	9.1	1.5	
BAIRD BLUE CHIP	AVG	Growth/income	65.7	18	5.75	1.50†	2.6	0.9	
BARON ASSET		Small company	48.0	4	No load	1.60†	13.9	0.0	
BARTLETT CAPITAL BASIC VALUE	AVG	Growth/income	98.9	9	No load	1.22	10.2	2.2	
BENHAM EQUITY GROWTH		Growth	73.4	89	No load	0.75	4.1	2.8	
BENHAM GOLD EQUITIES INDEX		Precious metals	161.4	30	No load	0.75	−8.7	0.2	
BENHAM INCOME & GROWTH		Growth/income	141.2	138	No load	0.75	7.9	3.0	
BERGER 100	▲	Growth	760.5	296	No load	1.89†	8.5	0.0	
BERGER 101	AVG	Growth/income	43.8	499	No load	2.66†	4.8	0.5	
BLANCHARD GLOBAL GROWTH (d)		Asset allocation	98.5	−34	No load	2.31†	0.8	5.2	
BOSTON CO. CAPITAL APPRECIATION		Growth	431.3	−15	No load	1.22†	4.0	1.3	
BOSTON CO. SPECIAL GROWTH	AVG	Growth	64.1	55	No load	1.66†	26.0	1.0	
BRANDYWINE	AVG	Growth	839.7	35	No load	1.10	15.7	0.0	
BULL & BEAR SPECIAL EQUITIES		Maximum growth	69.6	311	No load	3.00†	28.4	0.0	
BURNHAM	▲	Growth/income	117.2	−7	5.00	1.20	7.7	5.0	
CALVERT SOCIAL INVESTMENT EQUITY	AVG	Growth	64.5	52	4.75	1.17†	8.4	0.8	
CALVERT SOCIAL INVESTMENT MANAGED	▲ ▲	Balanced	448.5	23	4.75	1.28†	7.5	3.5	
CALVERT-ARIEL APPRECIATION		Growth	179.3	99	4.75	1.47†	13.2	0.4	
CALVERT-ARIEL GROWTH	AVG	Small company	262.0	2	4.75‡	1.23†	11.9	2.4	
CAPITAL INCOME BUILDER	▲ ▲	Equity-income	1452.8	121	5.75	0.98†	10.0	4.8	
CAPSTONE U. S. TREND (e)	AVG	Growth	101.2	−2	4.75	1.10†	0.8	1.4	2
CARDINAL	▲	Growth/income	272.1	13	8.50	0.67	9.8	2.6	
CENTURY SHARES	▲ ▲	Financial	259.6	64	No load	0.95	27.0	1.6	
CGM CAPITAL DEVELOPMENT	AVG	Growth	309.0	5	No load‡	0.86	17.5	0.7	
CGM MUTUAL	AVG	Balanced	549.4	37	No load	0.93	6.1	3.4	
CITIBANK IRA CIT BALANCED	▲ ▲	Balanced	236.3	11	No load	1.11	6.5	0.0	
CITIBANK IRA CIT EQUITY		Growth	185.1	4	No load	1.11	6.7	0.0	1
CLIPPER	▲	Growth/income	209.9	30	No load	1.17	15.9	1.7	
COLONIAL A	▲	Growth/income	438.9	16	5.75	1.05†	13.0	2.2	
COLONIAL GROWTH SHARES A	AVG	Growth	159.1	8	5.75	1.15†	11.0	0.9	
COLONIAL U. S. EQUITY INDEX	AVG	Growth/income	51.9	9	5.75	1.46†	6.2	1.5	
COLONIAL UTILITIES A (f)	▲ ▲ ▲	Utilities	250.9	84	4.75	0.91†	21.0	5.4	
COLUMBIA BALANCED		Balanced	90.2	595	No load	0.86	8.9	3.4	
COLUMBIA COMMON STOCK		Growth/income	51.0	150	No load	0.87	10.0	1.7	
COLUMBIA GROWTH	AVG	Growth	518.4	20	No load	0.86	11.8	0.7	
COLUMBIA SPECIAL	AVG	Small company	470.7	78	No load	1.19	13.6	0.0	
COMMON SENSE GROWTH		Growth	1587.0	16	8.50	1.26	7.1	0.7	1
COMMON SENSE GROWTH & INCOME	AVG	Growth/income	614.4	17	8.50	1.14	9.8	4.0	
COMPASS CAPITAL EQUITY-INCOME		Equity-income	177.0	32	3.75	0.99	7.2	3.5	
COMPASS CAPITAL GROWTH		Growth	149.0	30	3.75	1.00	5.1	1.3	1
COMPOSITE BOND & STOCK	▲ ▲	Balanced	112.9	61	4.00	1.18†	9.9	4.1	
COMPOSITE GROWTH	AVG	Growth/income	87.3	19	4.00	1.19†	11.0	2.1	
COMPOSITE NORTHWEST 50	AVG	Growth	179.7	55	4.50	1.12†	3.6	0.5	1
CONNECTICUT MUTUAL GROWTH	AVG	Growth	45.6	12	5.00	1.15	12.0	1.6	
CONNECTICUT MUTUAL TOTAL RETURN	▲ ▲	Asset allocation	109.7	27	5.00	1.14	9.9	3.4	
CRABBE HUSON ASSET ALLOCATION		Asset allocation	55.4	111	No load	1.57†	12.1	2.6	
DEAN WITTER AMERICAN VALUE	▲	Growth	381.9	146	5.00**	1.77†	3.8	0.2	1
DEAN WITTER CAPITAL GROWTH		Growth	951.0	76	5.00**	1.74†	−0.5	0.0	2
DEAN WITTER DEVELOPING GROWTH		Small company	112.3	2	5.00**	1.86†	−2.5	0.0	
DEAN WITTER DIVIDEND GROWTH	▲	Growth/income	5035.8	44	5.00**	1.40†	5.8	2.5	
DEAN WITTER EQUITY-INCOME	▲	Equity-income	158.1	13	5.00**	2.04†	13.0	6.3	
DEAN WITTER MANAGED ASSETS		Asset allocation	228.8	6	5.00**	1.86†	5.7	2.4	
DEAN WITTER NATURAL RESOURCE		Natural resources	119.0	−9	5.00**	2.01†	6.7	1.7	
DEAN WITTER STRATEGIST		Asset allocation	475.0	90	5.00**	1.63†	7.4	2.0	
DEAN WITTER UTILITIES		Utilities	2690.0	68	5.00**	1.65†	8.9	4.7	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not m
(d) Formerly Blanchard Strategic Growth Fund (e) Formerly U.S. Trend Fund (f) Formerly Colonial Corporate Cash Trust I

SCOREBOARD

EQUITY FUNDS

RESULTS: IN'L TOTAL RET. (%) 5 YEARS	10 YEARS	TREND: BW 10-YEAR ANALYSIS	PORTFOLIO DATA: TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING: COMPANY	% ASSETS	RISK	TELEPHONE: TOLL FREE (800)	IN-STATE
not rated			Average	3	19.1	FNMA	4		762-7085	
10.7	11.0		Average	6	19.0	IBM	3	Very low	374-2633	CA 714-833-0294
			Average	9	23.2	Union Texas Petroleum	3		441-7379	
			High	2	25.7	IBM	4		451-8379	AL 205-581-7530
19.5			Low	3	20.5	FirsTier Financial	2	Average	422-2766	MO 816-471-5200
12.0	12.6		Very low	3	19.3	Intel	3	Average	422-2766	MO 816-471-5200
13.5			Very low	B	21.8	McDonald's	4	Low	792-2473	WI 414-765-3500
15.9			High	4	29.0	Manor Care	11	High	992-2766	NY 212-759-7700
12.1			Average	5	16.1	Royce Value Trust	4	Low	800-4612	OH 513-621-4612
not rated				1	15.7	Schering-Plough	4		472-3389	CA 415-965-4274
			Average	1	31.9	American Barrick Resources	20		472-3389	CA 415-965-4274
not rated			High	1	17.8	NationsBank	4		472-3389	CA 415-965-4274
23.9	16.9		Average	23	36.7	Synoptics Communications	2	High	333-1001	CO 303-329-0200
14.5	14.3		High	16	21.8	Trinity Industries	3	Average	333-1001	CO 303-329-0200
5.4			High	3	23.6	PepsiCo	2	Low	922-7771	NY 212-779-7979
10.5	13.7		High	7	19.0	IBM	4	Average	225-5267	
17.5	14.4		High	9	27.0	Intel	4	High	225-5267	
22.1			Very high	5	30.2	JC Penney	4	High		DE 302-656-6200
14.9			Very high	−15	23.7	EMC	8	Very high	847-4200	NY 212-363-1100
11.4	13.5		Average	5	19.2	Southwestern Bell	3	Very low	874-3863	NY 212-262-3100
13.0			Low	5	22.2	Betz Laboratories	4	Low	368-2748	MD 301-951-4820
11.1	12.2		Low	53	21.4	Sysco	2	Very low	368-2748	MD 301-951-4820
			Low	10	23.0	Carnival Cruise Lines Cl A	3		368-2748	MD 301-951-4820
16.9			Average	0	19.0	Clorox	5	Average	368-2748	MD 301-951-4820
14.1			Low	7	17.6	GTE	2	Very low	421-0180	CA 213-486-9200
14.1	12.5		Low	B	22.9	Philip Morris	4	Average	262-6631	TX 713-750-8000
14.2	15.4		Very low	12	19.1	Philip Morris	7	Low	848-7734	OH 614-464-6852
20.3	17.7		Very low	16	15.6	Cincinnati Financial	7	Average	321-1928	MA 617-482-3060
22.7	20.6		Very high	1	16.4	Philip Morris	10	High	345-4048	MA 617-859-7714
13.7	15.6		High	2	13.9	Philip Morris	9	Average	345-4048	MA 617-859-7714
12.7			High	15	23.2	General Electric	2	Very low	248-4472	NY 212-736-8990
13.9			Average	10	27.7	Home Depot	2	Average	248-4472	NY 212-736-8990
15.7			Average	3	15.0	Tyco Laboratories	8	Average	776-5033	CA 310-247-3940
14.0	14.8		Low	9	20.2	Southwestern Bell	2	Low	248-2828	MA 617-426-3750
16.7	14.2		Low	7	18.8	Consolidated Rail	3	Average	248-2828	MA 617-426-3750
14.2			Very low	2	21.9	Exxon	3	Average	248-2828	MA 617-426-3750
14.2	11.2		Average	9	17.3	Houston Industries	3	Very low	248-2828	MA 617-426-3750
not rated			High	9	22.3	Philip Morris	2		547-1707	OR 503-222-3606
not rated			Average	9	22.4	Philip Morris	3		547-1707	OR 503-222-3606
15.7	14.5		High	7	24.7	Philip Morris	3	Average	547-1707	OR 503-222-3606
23.0			High	8	28.8	Bombay	2	High	547-1707	OR 503-222-3606
15.5			High	−5	26.1	General Electric	2	Average	544-5445	
14.4			Average	5	23.4	General Electric	2	Average	544-5445	
			High	−6	21.1	General Electric	4		451-8371	
			High	−2	23.4	Walt Disney	3		451-8371	
11.5	11.8		Low	5	17.3	Puget Sound Bancorp	2	Very low	543-8072	WA 509-353-3400
12.1	13.0		Low	3	17.5	Puget Sound Bancorp	4	Low	543-8072	WA 509-353-3400
20.1			Very low	0	22.9	Microsoft	B	High	543-8072	WA 509-353-3400
16.8			Very high	13	17.5	General Motors	2	Average	322-2642	CT 203-987-5090
13.7			Very high	9	16.0	General Motors Cl H	1	Very low	322-2642	CT 203-987-5090
			Very high	B	21.0	SuperValu	3		541-9732	OR 503-295-0919
17.4	13.4		Very high	21	27.4	Medco Containment Services	2	Average	869-3863	NY 212-392-2550
not rated			Low	1	24.1	Automatic Data Processing	3		869-3863	NY 212-392-2550
11.7			High	22	31.1	Cisco Systems	3	Very high	869-3863	NY 212-392-2550
14.9	15.2		Very low	4	20.8	Coca-Cola	2	Low	869-3863	NY 212-392-2550
14.8			Average	5	20.2	General Electric	2	Low	869-3863	NY 212-392-2550
			Average	1	21.9	Gillette	2		869-3863	NY 212-392-2550
9.3	8.4		Low	2	26.0	Texaco	4	Average	869-3863	NY 212-392-2550
			Average	1	22.5	US Healthcare	2		869-3863	NY 212-392-2550
			Very low	5	16.0	Nynex	2		869-3863	NY 212-392-2550

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE ASSETS $ MIL.	SIZE % CHG. 1991-92	FEES SALES CHARGE (%)	FEES EXPENSE RATIO (%)	CURRENT RESULTS 1992 TOTAL RET. (%)	CURRENT RESULTS 1992 YIELD
DEAN WITTER VALUE-ADDED MKT. EQTY.		Growth/income	202.0	35	5.00**	1.80†	12.7	0.8
DEAN WITTER WORLD WIDE INVESTMENT		World	233.4	−10	5.00**	2.39†	−7.5	0.0
DELAWARE	▲ ▲	Balanced	483.5	5	5.75	0.74†	12.7	3.4
DELAWARE DECATUR I (g)		Equity-income	1432.9	−14	8.50	0.71	8.8	4.4
DELAWARE DECATUR II (h)	AVG	Equity-income	380.1	−8	5.75	1.21†	8.2	3.2
DELAWARE DELCAP (i)		Growth	1173.5	50	5.75	1.43†	1.9	0.0
DELAWARE TREND	AVG	Maximum growth	169.6	63	5.75	1.18†	22.4	0.0
DELAWARE VALUE	▲	Growth	43.6	212	5.75	2.00†	15.3	0.2
DODGE & COX BALANCED	▲	Balanced	268.8	50	No load	0.65	10.6	4.1
DODGE & COX STOCK		Growth/income	335.9	19	No load	0.64	10.8	2.3
DREYFUS	▲	Growth/income	3148.9	5	No load	0.78	5.5	1.8
DREYFUS APPRECIATION	▲	Growth	207.6	156	No load	1.30†	4.3	0.7
DREYFUS CAPITAL GROWTH (j)	AVG	Maximum growth	533.0	1	3.00	1.07	6.2	1.3
DREYFUS CAPITAL VALUE		Asset allocation	437.3	−39	4.50	1.58†	−11.1	5.7
DREYFUS GROWTH & INCOME		Growth/income	137.1	2588	No load	NA	20.1	1.8
DREYFUS GROWTH OPPORTUNITY		Growth	641.8	−9	No load	0.95	−4.2	0.1
DREYFUS NEW LEADERS	▲	Small company	233.6	20	1.00*	1.29†	9.4	0.4
DREYFUS STRATEGIC GROWTH (k)		Maximum growth	44.8	−27	3.00	1.58†	−15.4	0.0
DREYFUS STRATEGIC INVESTING		Growth	255.3	54	4.50	1.93†	−5.2	0.2
DREYFUS STRATEGIC WORLD INVESTING	▲ ▲	World	111.4	104	3.00	1.62†	−2.7	0.0
DREYFUS THIRD CENTURY	▲ ▲	Growth	527.4	46	No load	1.08	1.9	0.5
EATON VANCE EQUITY-INCOME	AVG	Equity-income	47.7	−15	6.00**	2.58†	1.0	4.3
EATON VANCE GROWTH	AVG	Growth	154.2	−1	4.75	0.87†	5.2	0.0
EATON VANCE INVESTORS	▲ ▲	Balanced	212.0	−2	4.75	0.91†	6.4	4.6
EATON VANCE SPECIAL EQUITIES		Growth	76.5	−1	4.75	0.99†	2.7	0.0
EATON VANCE STOCK	▲	Growth/income	91.2	−1	4.75	0.93†	6.8	2.2
EATON VANCE TOTAL RETURN	▲	Utilities	564.5	4	4.75	1.51†	6.6	5.3
EBI EQUITY	AVG	Growth/income	91.1	12	No load	2.22†	4.8	0.9
EBI FLEX		Asset allocation	165.7	59	No load	2.21†	7.7	2.6
ECLIPSE FINANCIAL ASSET EQUITY	AVG	Small company	154.1	4	No load	1.14	19.4	1.1
EMBLEM RELATIVE VALUE EQUITY		Growth	222.8	18	4.00	0.91	9.4	1.4
EMERALD EQUITY		Growth	154.9	34	4.50	0.69†	4.2	1.2
ENTERPRISE CAPITAL APPRECIATION	▲	Maximum growth	72.4	118	4.75	1.75†	5.8	0.0
ENTERPRISE GROWTH	AVG	Growth	84.5	9	4.75	1.60†	6.5	0.0
EQUITY STRATEGIES		Maximum growth	70.5	−1	No load‡	1.12	2.7	0.0
EUROPACIFIC GROWTH	AVG	Foreign	2623.4	53	5.75	1.24†	2.3	1.5
EVERGREEN		Small company	782.2	−5	No load	1.13	8.7	1.1
EVERGREEN FOUNDATION		Balanced	63.7	506	No load	1.50	20.0	1.9
EVERGREEN LIMITED MARKET	▲	Small company	66.8	18	No load	1.25	10.1	3.9
EVERGREEN TOTAL RETURN	▲	Growth/income	1077.9	−4	No load	1.19	11.6	6.8
EVERGREEN VALUE TIMING	▲	Growth/income	63.8	39	No load	1.35	13.8	1.6
FFB EQUITY	AVG	Growth	123.2	2856	2.50	1.50†	0.2	1.9
FIDELITY	▲	Growth/income	1353.2	3	No load	0.68	8.5	2.5
FIDELITY ADVISOR GROWTH OPPORTUNITIES (l)	▲	Growth	715.5	171	4.75	1.60†	15.0	0.6
FIDELITY ADVISOR INCOME & GROWTH (m)	▲ ▲ ▲	Balanced	476.5	200	4.75	1.60†	9.2	3.8
FIDELITY ASSET MANAGER		Asset allocation	3392.7	234	No load	1.17	12.7	3.5
FIDELITY ASSET MANAGER: GROWTH		Asset allocation	236.7	2530	No load	1.64	20.0	1.3
FIDELITY BALANCED	▲ ▲ ▲	Balanced	1754.5	142	No load	0.96	7.9	5.2
FIDELITY BLUE CHIP GROWTH	▲	Growth	567.4	45	3.00	1.27	6.2	0.6
FIDELITY CAPITAL APPRECIATION	AVG	Maximum growth	983.4	−1	3.00	0.71	16.4	1.3
FIDELITY CONTRAFUND	▲ ▲ ▲	Growth	1958.3	95	3.00	0.86	15.9	0.7
FIDELITY DESTINY I	AVG	Growth	2573.8	12	8.24	0.61	15.2	1.7
FIDELITY DESTINY II	AVG	Growth	567.0	37	8.24	0.88	15.5	1.4
FIDELITY DISCIPLINED EQUITY		Growth	448.4	156	0.50*	1.16	13.2	1.1
FIDELITY EMERGING GROWTH		Small company	641.3	−11	3.75*	1.12	8.4	0.1
FIDELITY EQUITY-INCOME	AVG	Equity-income	4976.0	13	2.00	0.67	14.7	3.7
FIDELITY EQUITY-INCOME II		Equity-income	2169.8	485	No load	1.12	19.1	2.3
FIDELITY EUROPE		Europe	436.8	50	3.00	1.22	−2.5	1.9
FIDELITY GROWTH & INCOME	▲ ▲	Growth/income	4828.6	44	2.00	0.86	11.5	2.6
FIDELITY GROWTH COMPANY	▲ ▲	Growth	1810.7	32	3.00	1.09	7.9	0.3

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return NA = Not available. NM = Not r
(g) Formerly Delaware Decatur Fund Decatur I Series (h) Formerly Delaware Decatur Fund Decatur II Series (i) Formerly Delaware Delcap Fund Concept I Series (j) Formerly Dreyfus Leverage Fund (k) Formerly Dreyf
Aggressive Investing (l) Formerly Plymouth Growth Opportunities Portfolio (m) Formerly Plymouth Income & Growth Portfolio

SCOREBOARD

EQUITY FUNDS

RESULTS: ANN'L TOTAL RET (%) 5 YEARS	10 YEARS	TREND: BW 10-YEAR ANALYSIS	PORTFOLIO DATA: TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING: COMPANY	% ASSETS	RISK	TELEPHONE: TOLL FREE (800)	IN-STATE
13.8			Very low	−4	21.9	FHLMC		Average	869-3863	NY 212-392-2550
5.7			High	20	27.9	Jardine Matheson	1	High	869-3863	NY 212-392-2550
15.5	12.7		High	4	18.0	Pitney Bowes	2	Low	523-4640	PA 215-988-1333
11.1	13.7		Average	9	22.1	Kmart	3	Average	523-4640	PA 215-988-1333
13.7			High	11	22.4	Bristol-Myers Squibb	3	Low	523-4640	PA 215-988-1333
17.1			Low	12	23.8	Cabletron Systems	3	High	523-4640	PA 215-988-1333
25.0	15.4		Average	11	28.3	Lone Star Steakhouse	4	High	523-4640	PA 215-988-1333
20.3			High	22	21.0	Western Gas Resources		Average	523-4640	PA 215-988-1333
13.1	14.3		Very low	5	23.9	IBM	2	Low		CA 415-434-0311
13.0	16.2		Very low	4	23.2	IBM	4	Average		CA 415-434-0311
11.9	13.1		Average	19	19.8	Philip Morris	5	Low	645-6561	NY 718-895-1206
16.0			Very low	5	22.3	Philip Morris	9	Average	242-8671	NY 718-895-1396
11.2	14.2		High	6	22.3	Intel	6	Low	645-6561	NY 718-895-1206
4.9			Very high	36	29.4	American Barrick Resources	6	Average	645-6561	NY 718-895-1206
not rated				NA	22.4	GTE	3		645-6561	NY 718-895-1206
12.9	13.1		Average	12	29.5	Pfizer	3	Average	645-6561	NY 718-895-1206
17.8			High	16	23.7	Crompton & Knowles	2	Average	645-6561	NY 718-895-1206
4.6			High	76	26.7	Motorola	4	Average	645-6561	NY 718-895-1206
11.1			Very high	27	30.2	Medco Containment Services	3	Average	645-6561	NY 718-895-1206
11.1			Very high	84	25.6	Meiji Milk Products	2	Very low	645-6561	NY 718-895-1206
16.1	13.5		Average	23	29.3	Astra Cl A	4	Low	645-6561	NY 718-895-1206
7.8			High	8	20.0	Nationwide Health Properties	4	Low	225-6265	MA 617-482-8260
14.5	14.0		Average	3	23.5	Circus Circus Enterprises	4	Average	225-6265	MA 617-482-8260
11.8	12.2		Average	5	16.8	Reuters Holdings Cl B	3	Very low	225-6265	MA 617-482-8260
17.9	11.3		Average	2	27.4	Circus Circus Enterprises	6	High	225-6265	MA 617-482-8260
14.1	14.4		Average	−2	20.8	Nalco Chemical	4	Low	225-6265	MA 617-482-8260
14.5	14.9		Average	−7	14.9	Central & Southwest	5	Low	225-6265	MA 617-482-8260
13.8			Average	7	19.6	Manor Care	4	Average	554-1156	
			Low	7	20.9	NationsBank	3		554-1156	
12.2			High	2	18.6	Kaman Cl A	1	Average	872-2710	GA 404-631-0414
			Average	5	21.9	General Electric	3		362-5365	
not rated				3	20.4	Philip Morris	5		637-6336	
20.0			Average	13	30.2	Home Depot	5	Average	432-4320	GA 404-396-8118
15.3	14.3		Average	3	22.9	Microsoft	4	Average	432-4320	GA 404-396-8118
18.5			Very low	−17	12.6	Nabors Industries	119	Very high	443-1021	NY 212-888-6685
12.7			Very low	18	18.9	Alcatel Alsthom	2	Low	421-0180	CA 213-486-9200
13.7	13.9		Low	10	19.9	Merck	4	High	235-0064	NY 914-694-2020
not rated			Very high	6	18.0	MGIC Investment	3		235-0064	NY 914-694-2020
17.8			Average	9	19.4	Score Board	3	Average	235-0064	NY 914-694-2020
11.7	14.0		High	8	20.0	Bristol-Myers Squibb	5	Low	235-0064	NY 914-694-2020
16.4			Low	6	21.0	FHLMC	3	Average	235-0064	NY 914-694-2020
13.2			Very high	6	22.0	Merck	3	Average	437-8790	NY 212-309-8400
14.2	13.9		Very high	15	23.9	First Chicago	1	Low	544-8888	
21.7			High	15	24.2	FNMA	3	High	522-7297	MA 617-439-6793
16.5			Very high	25	20.1	Advanced Micro Devices	1	Very low	522-7297	MA 617-439-6793
			High	21	24.1	FNMA	1		544-8888	
not rated			Very high	22	21.4	Exxon	1		544-8888	
13.5			Very high	16	22.2	Advanced Micro Devices	1	Very low	544-8888	
19.7			Average	8	25.4	Philip Morris	5	Average	544-8888	
13.5			High	11	22.2	Gulf States Utilities	8	Average	544-8888	
26.4	17.8		Very high	13	21.4	Chrysler	1	Low	544-8888	
18.4	18.6		Average	9	21.5	FNMA	5	Average	752-2347	MA 617-439-0547
19.8			High	6	22.1	FNMA	4	High	752-2347	MA 617-439-0547
			Very high	14	17.2	Exxon	3		544-8888	
not rated			Very high	14	32.9	Microsoft	5		544-8888	
13.1	14.3		High	12	21.7	Entergy	1	Low	544-8888	
not rated			High	16	16.1	Primerica	2		544-8888	
6.3			High	8	10.4	Nestle	2	High	544-8888	
18.6			Very high	22	19.2	Entergy	2	Low	544-8888	
22.2			Very high	16	28.4	Microsoft	4	Average	544-8888	

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE ASSETS $ MIL.	SIZE % CHG. 1991-92	FEES SALES CHARGE (%)	FEES EXPENSE RATIO (%)	CURRENT RESULTS 1992 TOTAL RET. (%)	CURRENT RESULTS 1992 YIELD	RISK
FIDELITY INTL. GROWTH & INCOME		Foreign	65.2	11	2.00	1.62	−3.3	2.4	
FIDELITY LOW-PRICED STOCK		Small company	2240.4	497	4.50*	1.20	29.0	0.6	
FIDELITY MAGELLAN	▲ ▲	Growth	22267.9	16	3.00	0.99	7.0	1.7	
FIDELITY MARKET INDEX		Growth/income	285.0	41	0.50*	0.43	7.3	2.5	
FIDELITY OTC	▲ ▲	Small company	1243.6	16	3.00	1.17	14.9	0.9	
FIDELITY OVERSEAS		Foreign	781.9	−18	3.00	1.52	−11.5	1.7	
FIDELITY PACIFIC BASIN		Pacific	112.5	20	3.00	1.84	−6.7	0.7	
FIDELITY PURITAN	▲ ▲	Balanced	5911.8	16	2.00	0.64	15.4	5.3	
FIDELITY REAL ESTATE INVESTMENT	▲	Specialty	146.9	135	No load	1.15	19.5	3.4	
FIDELITY RETIREMENT GROWTH	▲	Growth	2211.6	21	No load	1.06	10.6	0.8	
FIDELITY SELECT AMERICAN GOLD		Precious metals	153.2	0	3.75*	1.57	−3.1	0.0	
FIDELITY SELECT AUTOMOTIVE	AVG	Specialty	77.4	3125	3.75*	1.52	41.6	0.3	
FIDELITY SELECT BIOTECHNOLOGY	▲ ▲ ▲	Health care	796.0	−31	3.75*	1.50	−10.4	0.0	
FIDELITY SELECT COMPUTERS		Technology	55.7	174	3.75*	1.94	22.0	0.0	
FIDELITY SELECT DEVELOPING COMM.		Technology	70.3	261	3.75*	1.87	17.2	0.0	
FIDELITY SELECT ELECTRONICS		Technology	53.7	421	3.75*	1.79	27.4	0.0	
FIDELITY SELECT ENERGY		Natural resources	68.5	−5	3.75*	1.67	−2.4	1.9	
FIDELITY SELECT ENVIRONMENTAL		Specialty	68.3	−5	3.75*	1.95	−1.4	0.0	
FIDELITY SELECT FINANCIAL SVCS		Financial	131.9	148	3.75*	1.47	42.8	1.0	
FIDELITY SELECT FOOD & AGRICULTURAL	▲ ▲ ▲	Specialty	117.6	−4	3.75*	1.67	6.0	0.3	
FIDELITY SELECT HEALTH CARE	▲ ▲	Health care	753.9	−36	3.75*	1.44	−17.5	0.2	
FIDELITY SELECT MEDICAL DELIVERY	▲ ▲	Health care	195.6	−2	3.75*	1.75	−13.2	0.0	
FIDELITY SELECT PRECIOUS METALS		Precious metals	115.0	−22	3.75*	1.68	−21.9	2.0	
FIDELITY SELECT REGIONAL BANKS	▲	Financial	233.6	544	3.75*	1.40	48.5	0.5	
FIDELITY SELECT RETAILING	▲ ▲ ▲	Specialty	93.4	216	3.75*	1.80	22.1	0.0	
FIDELITY SELECT SAVINGS & LOAN	AVG	Financial	208.0	2001	3.75*	1.40	57.8	0.0	
FIDELITY SELECT SOFTWARE/COMP.		Technology	143.0	591	3.75*	1.69	35.5	0.0	
FIDELITY SELECT TECHNOLOGY		Technology	130.2	4	3.75*	1.64	8.7	0.0	
FIDELITY SELECT TELECOMMUN.	▲	Utilities	111.3	62	3.75*	1.74	15.3	0.5	
FIDELITY SELECT UTILITIES	▲ ▲ ▲	Utilities	247.0	−7	3.75*	1.41	10.6	3.3	
FIDELITY SPEC. SITUATIONS: ADVISOR (n)	▲ ▲	Growth	205.4	4	4.75	1.46†	12.9	2.8	
FIDELITY STOCK SELECTOR		Growth	350.0	176	No load	1.22	15.4	0.6	
FIDELITY TREND	AVG	Growth	1105.3	23	No load	0.50	16.8	0.8	
FIDELITY UTILITIES INCOME	▲ ▲ ▲	Utilities	960.8	55	No load	0.87	10.9	4.2	
FIDELITY VALUE	▲	Growth	659.0	434	No load	1.00	21.2	0.6	
FIDELITY WORLDWIDE		World	99.0	−2	3.00	1.51	6.2	2.7	
FIDUCIARY CAPITAL GROWTH		Growth	43.1	22	No load	1.40	14.4	0.5	
FINANCIAL DYNAMICS		Maximum growth	273.6	94	No load	1.18†	13.2	0.0	
FINANCIAL EMERGING GROWTH		Small company	123.0	NM	No load	1.93†	22.8	0.0	
FINANCIAL EQUITY	AVG	Growth/income	78.6	98	No load	0.98	5.0	2.0	
FINANCIAL FLEX	▲ ▲	Asset allocation	137.2	67	No load	0.92	9.8	3.7	
FINANCIAL INDUSTRIAL	AVG	Growth	449.0	−1	No load	1.04†	2.9	0.7	
FINANCIAL INDUSTRIAL INCOME	▲ ▲	Equity-income	2751.3	72	No load	0.98†	1.0	2.6	
FINANCIAL STRATEGIC EUROPEAN		Europe	124.8	58	No load	1.43	−7.6	1.9	
FINANCIAL STRATEGIC FINL. SERVICES	▲ ▲ ▲	Financial	246.6	171	No load	1.13	26.8	1.0	
FINANCIAL STRATEGIC GOLD		Precious metals	55.4	56	No load	1.47	−8.2	0.0	
FINANCIAL STRATEGIC HEALTH SCIENCES	▲ ▲ ▲	Health care	792.2	−26	No load	1.03	−14.4	0.3	
FINANCIAL STRATEGIC LEISURE	▲ ▲ ▲	Specialty	79.3	343	No load	1.86	23.4	0.0	
FINANCIAL STRATEGIC TECHNOLOGY	AVG	Technology	256.5	140	No load	1.19	18.8	0.0	
FINANCIAL STRATEGIC UTILITIES	▲	Utilities	108.1	27	No load	1.21	10.7	2.2	
FIRST AMERICAN STOCK		Growth	90.0	2701	4.75	1.45†	7.8	0.9	
FIRST EAGLE FUND OF AMERICA	AVG	Growth	74.1	0	1.00*	2.90	24.3	0.0	
FIRST INVESTORS BLUE CHIP		Growth/income	98.5	23	6.90	1.49†	6.5	0.8	
FIRST INVESTORS GLOBAL		World	179.8	−21	6.90	1.84†	−4.8	0.8	
FIRST UNION BALANCED INVESTMENT		Balanced	519.0	NM	4.00	0.91†	7.6	3.7	
FIRST UNION VALUE INVESTMENT	▲	Growth	168.8	25	4.00	0.98†	8.0	2.4	
FIRST UNION VALUE TRUST		Growth	328.7	22	No load	0.69	8.3	2.7	
FLAG INVESTORS QUALITY GROWTH		Growth	74.9	14	4.50	1.25†	5.4	0.6	
FLAG INVESTORS TELEPHONE INCOME	▲ ▲	Utilities	307.6	29	4.50	0.92†	12.4	3.4	
FLEX-FUNDS MUIRFIELD		Asset allocation	62.2	44	No load	1.43†	7.5	0.9	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available NM = Not m
(n) Formerly Fidelity Spec. Sit. Fund:Plymouth Class

SCOREBOARD

EQUITY FUNDS

RESULTS: IN'L TOTAL RET. (%) 5 YEARS	RESULTS: IN'L TOTAL RET. (%) 10 YEARS	TREND: BW 10-YEAR ANALYSIS	PORTFOLIO DATA: TURNOVER	PORTFOLIO DATA: % CASH	PORTFOLIO DATA: P/E RATIO	LARGEST HOLDING: COMPANY	LARGEST HOLDING: % ASSETS	RISK	TELEPHONE: TOLL FREE (800)	TELEPHONE: IN-STATE
6.1			Average	6	16.5	Union Bank Of Switzerland	2	High	544-8888	
			Average	34	16.0	Welsh Water	4		544-8888	
18.9	19.7		Very high	12	24.6	Exxon	2	Average	544-8888	
not rated			Very low	7	22.0	Exxon	3		544-8888	
21.2			Very high	15	21.1	Microsoft	2	Average	544-8888	
2.6			High	2	17.3	Storehouse	3	High	544-8888	
−1.2			High	3	22.4	HSBC Holdings	3	Very high	544-8888	
13.9	15.1		High	4	21.4	Primerica	3	Low	544-8888	
13.8			High	11	29.2	Property Trust America	5	Low	544-8888	
16.9			High	13	24.6	Microsoft	3	Average	544-8888	
−4.3			Low	9	32.5	American Barrick Resources	14	Very high	544-8888	
17.8			Low	14	20.0	General Motors	8	Average	544-8888	
31.0			High	24	29.6	Chiron	8	High	544-8888	
13.8			Very high	17	23.1	Merisel	10	Very high	544-8888	
not rated			Low	11	30.9	Cisco Systems	5		544-8888	
14.1			Very high	19	26.7	Intel	6	Very high	544-8888	
9.1	8.8		Average	5	22.9	Unocal	7	Average	544-8888	
			High	13	23.6	Chemical Waste Mgmt.	10		544-8888	
18.5	17.7		High	7	18.6	Primerica	6	Very high	544-8888	
22.3			Average	5	20.5	Philip Morris	6	Low	544-8888	
23.9	20.4		High	15	26.9	Schering-Plough	9	High	544-8888	
26.8			High	15	26.2	Novacare	8	High	544-8888	
−8.8	−2.4		Low	7	28.1	American Barrick Resources	16	Very high	544-8888	
25.5			High	16	22.4	NationsBank	5	High	544-8888	
28.5			High	12	29.1	Home Depot	7	High	544-8888	
23.4			High	2	14.3	Albank Financial	3	High	544-8888	
19.5			Very high	17	30.1	Microsoft	9	Very high	544-8888	
16.8	9.2		Very high	13	33.1	Microsoft	10	Very high	544-8888	
19.4			High	8	22.2	Bell Atlantic	8	Average	544-8888	
16.9	16.7		Average	5	16.5	Entergy	5	Very low	544-8888	
15.9			Very high	4	18.3	Houston Industries	5	Low	522-7297	MA 617-439-6793
not rated			Very high	21	16.2	Southern	2		544-8888	
17.9	14.7		Average	5	24.4	FNMA	5	High	544-8888	
14.6			Average	11	16.4	Entergy	3	Very low	544-8888	
16.2	12.6		Average	19	19.6	WR Grace	2	Average	544-8888	
not rated			High	18	17.3	Philip Morris	2		544-8888	
14.0	10.9		Average	24	19.0	MCI Communications	5	High	338-1579	WI 414-226-4555
18.8	12.7		Very high	19	32.8	Comptronix	2	High	525-8085	CO 303-930-6300
not rated				22	33.5	Century Medicorp	2		525-8085	CO 303-930-6300
13.8			Average	6	17.8	General Dynamics	3	Average	525-8085	CO 303-930-6300
12.7			Average	8	20.1	Lockheed	2	Very low	525-8085	CO 303-930-6300
15.0	12.2		Average	11	21.7	Philip Morris	4	Average	525-8085	CO 303-930-6300
17.8	17.1		High	2	17.9	Conseco	3	Low	525-8085	CO 303-930-6300
6.7			Average	4	13.5	Smithkline Beecham Cl A	2	High	525-8085	CO 303-930-6300
26.9			Very high	8	18.7	Bank Of New York	8	Average	525-8085	CO 303-930-6300
−8.6			Average	2	29.0	American Barrick Resources	8	Very high	525-8085	CO 303-930-6300
30.8			High	11	31.3	Synergen	6	High	525-8085	CO 303-930-6300
24.4			High	18	26.4	Sonic	3	Average	525-8085	CO 303-930-6300
25.9			Very high	4	31.5	Syquest Technology	3	Very high	525-8085	CO 303-930-6300
13.9			High	2	14.9	General Public Utilities	5	Low	525-8085	CO 303-930-6300
11.5			Average	2	22.3	Xerox	3	Average	538-4483	MN 612-370-4151
14.0			High	24	19.6	First Empire State	5	Average	451-3623	NY 212-943-9200
			Low	10	22.6	Sara Lee	5		423-4026	NY 212-858-8000
9.3	13.8		Average	3	20.1	Ciba-Geigy	4	High	423-4026	NY 212-858-8000
not rated				4	18.5	Phelps Dodge	2		326-3241	NC 704-374-4343
14.7			Average	9	20.3	Quaker Oats	3	Low	326-3241	NC 704-374-4343
not rated				9	20.3	Quaker Oats	3		326-2584	NC 704-374-4343
			Very low	10	24.6	Gillette	3		767-3524	MD 410-727-1700
18.1			Very low	4	17.4	Southwestern Bell	8	Low	767-3524	MD 410-727-1700
			High	25	19.9	Value Line Fund	6		325-3539	OH 614-766-7000

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE ASSETS $ MIL.	SIZE % CHG. 1991-92	FEES SALES CHARGE (%)	FEES EXPENSE RATIO (%)	CURRENT RESULTS 1992 TOTAL RET. (%)	CURRENT RESULTS 1992 YIELD	RA
FORTIS ADVANTAGE ASSET ALLOC. (o)		Asset allocation	92.4	210	4.50	1.72†	6.3	3.9	9
FORTIS ADVANTAGE CAPITAL APPR. (p)		Growth	52.8	35	4.50	1.70†	5.9	0.0	1
FORTIS CAPITAL (q)	AVG	Growth	250.1	12	4.75	1.23†	6.6	0.5	1
FORTIS FIDUCIARY (r)		Growth	49.4	10	4.75	1.47†	6.9	0.0	1
FORTIS GROWTH (s)		Growth	554.4	32	4.75	1.13†	1.0	0.1	2
FORTRESS UTILITY	↑ ↑ ↑	Utilities	465.1	178	2.00*	1.10	8.9	5.5	
FOUNDERS BLUE CHIP	AVG	Growth/income	290.4	0	No load	1.24†	−0.3	1.1	1
FOUNDERS DISCOVERY		Small company	150.6	217	No load	1.97†	15.2	0.3	
FOUNDERS FRONTIER	↑	Small company	145.7	42	No load	1.84†	8.9	0.0	
FOUNDERS GROWTH		Growth	145.0	4	No load	1.55†	4.3	1.0	1
FOUNDERS SPECIAL	AVG	Maximum growth	455.4	103	No load	1.27	8.3	0.0	
FPA CAPITAL		Small company	125.1	27	6.50	1.11	21.6	0.3	
FPA PARAMOUNT	↑ ↑	Growth/income	292.8	14	6.50‡	0.92	9.9	2.4	
FPA PERENNIAL	↑ ↑ ↑	Growth/income	76.3	22	6.50	1.15	13.1	2.3	
FRANKLIN DYNATECH	AVG	Technology	69.9	25	4.00	0.81	4.2	1.2	
FRANKLIN EQUITY		Growth	358.7	−15	4.00	0.70	3.7	1.8	1
FRANKLIN GOLD		Precious metals	212.6	−19	4.00	0.31	−20.3	2.6	
FRANKLIN GROWTH	AVG	Growth	589.9	45	4.00	0.66	3.0	1.3	1
FRANKLIN INCOME	↑ ↑	Income	2739.8	53	4.00	0.55	15.1	9.0	
FRANKLIN RISING DIVIDENDS	↑ ↑ ↑	Growth/income	197.8	177	4.00	1.38†	10.4	1.6	
FRANKLIN UTILITIES	↑ ↑	Utilities	2440.3	65	4.00	0.57	9.1	5.7	
FREMONT MULTI ASSET		Asset allocation	109.8	28	No load	1.11	5.2	3.6	
FT INTERNATIONAL EQUITY		Foreign	103.0	−3	4.50	1.52	−5.9	1.5	
FUNDAMENTAL INVESTORS	AVG	Growth/income	1439.7	25	5.75	0.69†	10.2	2.2	
G.T. AMERICA GROWTH A		Growth	167.3	92	4.75	2.00†	31.7	7.2	
G.T. EUROPE GROWTH A		Europe	789.5	−35	4.75	2.10†	−11.3	0.0	
G.T. GLOBAL EMERGING MARKETS A		Foreign	85.5	NM	4.75	NA†	−5.4§		
G.T. GLOBAL GROWTH & INCOME A		World	154.9	81	4.75	1.85†	2.6	5.2	
G.T. GLOBAL HEALTH CARE A		Health care	673.4	−4	4.75	1.95†	−13.5	0.0	
G.T. GLOBAL TELECOMMUNICATIONS A		Utilities	489.4	NM	4.75	2.38†	5.5§		
G.T. INTERNATIONAL GROWTH A		Foreign	422.3	−9	4.75	1.90†	−5.8	0.2	
G.T. JAPAN GROWTH A		Pacific	94.6	53	4.75	2.20†	−21.5	0.7	
G.T. LATIN AMERICA GROWTH A		Foreign	95.8	−32	4.75‡	2.40†	−2.3	7.8	
G.T. PACIFIC GROWTH A		Pacific	281.8	−16	4.75	2.00†	−8.0	0.9	
G.T. WORLDWIDE GROWTH A		World	141.2	10	4.75	2.10†	3.3	0.4	
GABELLI ASSET	↑ ↑ ↑	Growth	631.8	30	No load	1.28†	14.9	1.2	
GABELLI EQUITY-INCOME		Equity-income	48.9	NM	No load	2.33†	8.6§		
GABELLI GROWTH	↑ ↑ ↑	Growth	624.4	48	No load	1.35†	4.5	0.4	1
GABELLI SMALL CAP GROWTH		Small company	123.9	382	No load	2.08†	20.3	0.2	
GABELLI VALUE		Growth	423.6	−26	5.50	1.52†	12.7	5.5	
GALAXY EQUITY GROWTH RETAIL		Growth	254.0	135	No load	0.95	6.1	1.2	1
GALAXY EQUITY VALUE RETAIL		Growth	139.3	58	No load	0.94	8.2	2.0	1
GATEWAY INDEX PLUS	↑ ↑ ↑	Growth/income	212.3	161	No load	1.13	5.1	1.8	
GINTEL	AVG	Growth	164.6	113	No load	1.40	24.7	0.7	
GINTEL ERISA		Growth/income	56.4	−23	No load	1.50†	14.4	1.8	
GIT SPECIAL GROWTH		Small company	44.7	−27	No load	1.39	6.7	0.6	
GLOBAL UTILITY A		Utilities	110.8	−14	5.25	1.46†	9.2	3.6	
GOLDMAN SACHS CAPITAL GROWTH		Growth	600.4	25	5.50	1.48†	23.4	0.4	
GOLDMAN SACHS SELECT EQUITY		Growth/income	115.5	−25	5.50	1.38†	0.0	1.5	1
GRADISON-MCDONALD ESTAB. VALUE (t)		Growth	184.8	9	No load	1.31†	10.2	1.5	
GRADISON-MCDONALD OPPORT. VALUE (u)	AVG	Small company	60.4	54	No load	1.49†	14.3	0.6	
GROWTH FUND OF AMERICA	AVG	Growth	4332.9	25	5.75	0.79†	7.4	0.8	1
GUARDIAN PARK AVENUE	↑	Growth	335.4	24	4.50	0.68	20.5	1.7	
HANCOCK FREEDOM NATL. AVIATION (v)		Technology	71.1	−3	5.00	1.61	3.0	0.0	
HANCOCK FREEDOM REGIONAL BANK B (w)	↑ ↑ ↑	Financial	70.7	41	4.00**	1.96†	47.4	1.0	
HANCOCK GROWTH		Growth	153.1	5	5.00	1.58†	6.1	0.0	1
HANCOCK SOVEREIGN INVESTORS	↑ ↑	Growth/income	872.9	350	5.00	1.15†	7.2	3.0	
HANCOCK SPECIAL EQUITIES	↑	Small company	69.7	202	5.00	2.14†	30.4	0.0	
HARBOR CAPITAL APPRECIATION	AVG	Growth	105.0	16	No load	0.86	10.0	0.1	
HARBOR GROWTH		Growth	202.6	−6	No load	0.89	−6.3	0.1	2

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not me
(o) Formerly AMEV Advantage Asset Allocation Port. (p) Formerly AMEV Advantage Capital Apprec. Port. (q) Formerly AMEV Capital Fund (r) Formerly AMEV Fiduciary Fund (s) Formerly AMEV Growth Fund (t) Formerly
Growth Tr. Estab. Growth Fund (u) Formerly Gradison Growth Tr. Opport. Growth Fund (v) Formerly Natl. Aviation & Tech. Fund (Hancock) (w) Formerly Freedom Regional Bank Fund (Class B)

SCOREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA					RISK	TELEPHONE	
INT'L TOTAL RET. (%)		BW 10-YEAR	TURNOVER	% CASH	P/E	LARGEST HOLDING			TOLL FREE	IN-STATE
5 YEARS	10 YEARS	ANALYSIS			RATIO	COMPANY	% ASSETS		(800)	
			Average	2	22.4	Franklin Resources	4		800-2638	MN 612-738-4000
19.3			High	15	38.9	Lone Star Steakhouse/Saloon	3	Very high	800-2638	MN 612-738-4000
16.0	15.0		Low	11	27.4	Fruit Of The Loom Cl A	5	Average	800-2638	MN 612-738-4000
16.9	16.2		Low	7	28.2	Fruit Of The Loom Cl A	6	High	800-2638	MN 612-738-4000
19.5	16.2		Low	21	37.7	United Healthcare	3	High	800-2638	MN 612-738-4000
14.7			Average	6	16.6	Western Resources	3	Very low	245-5051	PA 412-288-1900
13.9	14.5		High	11	22.4	FNMA	3	Low	525-2440	CO 303-394-4404
			High	25	26.2	Mesa Airlines	2		525-2440	CO 303-394-4404
22.9			Very high	13	31.5	LDDS Communications Cl A	2	High	525-2440	CO 303-394-4404
15.3	13.9		Very high	9	30.3	Cisco Systems	4	High	525-2440	CO 303-394-4404
20.1	14.5		Very high	24	29.5	BMC Software	3	High	525-2440	CO 303-394-4404
20.6	16.2		Low	5	21.6	Green Tree Financial	12	Very high	982-4372	CA 310-473-0225
15.3	16.2		High	56	39.5	Enserch	6	Low	982-4372	CA 310-473-0225
15.9			Low	22	18.5	Lubrizol	3	Very low	982-4372	CA 310-473-0225
15.0	11.4		Very low	38	25.9	Intel	8	Average	342-5236	CA 415-312-2000
11.9	13.7		Average	3	18.8	Apache	2	High	342-5236	CA 415-312-2000
−2.9	2.2		Very low	15	26.1	American Barrick Resources	14	Very high	342-5236	CA 415-312-2000
12.5	14.0		Very low	28	20.6	UAL	3	Low	342-5236	CA 415-312-2000
12.7	13.7		Low	11	17.6	Southern	2	Very low	342-5236	CA 415-312-2000
16.4			Low	18	18.2	Mercury General	4	Very low	342-5236	CA 415-312-2000
13.8	14.5		Very low	10	14.6	Southern	3	Low	342-5236	CA 415-312-2000
			Average	10	25.2	United Dominion Realty Trust	2		548-4539	
4.2			Average	6	15.3	Grand Metropolitan	4	High	245-5051	PA 412-288-1900
15.0	16.0		Low	4	19.9	FNMA	4	Average	421-0180	CA 415-421-9360
20.1			High	22	19.9	Lattice Semiconductor	3	High	824-1580	CA 415-392-6181
4.3			Average	5	21.7	Reuters Holdings	3	High	824-1580	CA 415-392-6181
not rated				4	12.9	Tagaraksa Satria	2		824-1580	CA 415-392-6181
not rated			Average	12	17.1	Tomkins	2		824-1580	CA 415-392-6181
			Low	6	30.7	Roche Hldngs Genusscheine	4		824-1580	CA 415-392-6181
not rated				2	22.4	Cisco Systems	4		824-1580	CA 415-392-6181
8.6			Average	0	20.6	HSBC Holdings	3	Average	824-1580	CA 415-392-6181
1.3			High	5	29.1	Shimachu	5	Very high	824-1580	CA 415-392-6181
not rated			High	2	NA	Telefonos de Mexico Cl L	9		824-1580	CA 415-392-6181
11.1	16.0		Average	6	16.4	News	4	High	824-1580	CA 415-392-6181
11.7			Average	5	24.0	HSBC Holdings	4	Average	824-1580	CA 415-392-6181
16.4			Low	10	23.2	Paramount Communications	3	Low	422-3554	NY 914-921-5100
not rated				18	20.6	Eastern Enterprises	6		422-3554	NY 914-921-5100
21.8			Average	6	23.5	Johnson & Johnson	3	Low	422-3554	NY 914-921-5100
not rated				19	22.1	Idex	6		422-3554	NY 914-921-5100
			Low	2	22.6	Paramount Communications	28		422-3554	NY 914-921-5100
not rated			Low	11	22.3	American International Grp.	3		628-0414	
			Average	1	17.2	BellSouth	3		628-0414	
14.3	11.1		Low	5	23.7	Exxon	6	Very low	354-6339	OH 513-248-2700
16.6	13.4		Average	13	22.0	Phelps Dodge	18	High	243-5808	CT 203-622-6400
11.7	13.0		High	11	19.5	Phelps Dodge	15	Average	243-5808	CT 203-622-6400
12.1			Low	8	20.2	CUC International	4	Average	336-3063	VA 703-528-6500
not rated			High	4	15.3	Empresa Nacional de Electric	5		225-1852	
not rated			Average	10	21.5	Valassis Communications	4		762-5035	
not rated			High	3	18.3	Unilever (nv)	5		762-5035	
10.6			Average	26	15.2	Advanced Micro Devices	3	Average	869-5999	OH 513-579-5700
15.5			Average	31	14.8	Michaels Stores	4	Average	869-5999	OH 513-579-5700
16.6	15.2		Very low	14	22.1	FNMA	4	Average	421-0180	CA 415-421-9360
16.4	17.5		Average	5	15.5	Intel	3	Average	221-3253	NY 212-598-8259
13.7	9.1		Low	2	23.2	UAL	17	High	225-5291	
23.9			Average	9	13.6	Integra Financial	2	Low	225-5291	
14.9	13.4		Average	4	32.3	Wal-Mart Stores	4	High	225-5291	
15.0	15.6		Average	8	20.0	NationsBank	3	Very low	225-5291	
27.6			Very high	4	38.6	Tommy Hilfiger	4	High	225-5291	
19.1			Average	6	26.2	Pfizer	4	High	422-1050	OH 419-247-2477
13.1			High	7	31.8	3COM	8	High	422-1050	OH 419-247-2477

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS	
			ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	1992 TOTAL RET. (%)	YIELD
HARBOR INTERNATIONAL	AVG	Foreign	761.9	245	No load	1.23	−0.2	1.3
HARBOR VALUE	AVG	Growth/income	66.9	59	No load	0.80	7.5	2.8
HARTWELL EMERGING GROWTH		Small company	194.9	81	4.75	1.56†	1.0	0.0
HEARTLAND VALUE		Small company	49.2	65	No load	1.80†	42.5	0.0
HELMSMAN BLUE CHIP EQTY. FIDUCIARY		Growth	120.9	70	5.50	0.78†	1.9	1.6
HELMSMAN DISCIP. EQTY. FIDUCIARY		Growth	146.5	48	5.50	0.69†	12.9	2.4
HELMSMAN EQUITY INDEX FIDUCIARY		Growth/income	81.0	115	5.50	0.73†	7.1	2.1
HELMSMAN GROWTH EQTY. FIDUCIARY		Growth	172.9	68	5.50	0.75†	9.5	0.2
HELMSMAN INCOME EQTY. FIDUCIARY		Equity-income	149.2	45	5.50	0.70†	6.8	3.3
HELMSMAN QUANT. EQTY. FIDUCIARY		Growth	77.6	52	5.50	0.82†	9.2	1.5
HERITAGE CAPITAL APPRECIATION	AVG	Growth	64.8	3	4.00	1.66†	9.7	2.6
HIGHMARK INCOME-EQUITY		Equity-income	85.6	45	No load	1.16	9.5	3.4
IAA GROWTH (x)	AVG	Growth	70.8	−17	3.00	0.85	2.1	1.6
IAI INTERNATIONAL		Foreign	49.5	36	No load	1.98†	−5.5	0.4
IAI REGIONAL		Growth	628.6	38	No load	1.25†	3.5	1.0
IAI STOCK		Growth/income	135.7	18	No load	1.25†	4.0	0.6
IDEX		Growth	325.4	26	8.50	1.24	0.1	0.7
IDEX 3		Growth	213.8	−4	8.50‡	1.21	0.1	0.4
IDEX II GROWTH (y)		Growth	478.7	157	5.50	1.63†	1.2	0.4
IDS BLUE CHIP ADVANTAGE		Growth/income	121.3	44	5.00	1.11†	6.9	1.5
IDS DISCOVERY		Small company	403.3	45	5.00	1.04†	8.7	0.0
IDS DIVERSIFIED EQUITY-INCOME		Equity-income	216.1	466	5.00	1.08†	13.2	3.1
IDS EQUITY PLUS	AVG	Growth/income	496.2	13	5.00	0.74†	10.5	1.1
IDS GLOBAL GROWTH		World	77.1	88	5.00	1.75†	−2.2	0.7
IDS GROWTH	AVG	Growth	962.8	4	5.00	0.88†	8.1	0.0
IDS INTERNATIONAL		World	230.4	−3	5.00	1.45†	−5.8	0.2
IDS MANAGED RETIREMENT		Growth/income	1473.0	28	5.00	0.85†	9.3	1.7
IDS MUTUAL		Balanced	2307.1	16	5.00	0.78†	10.4	4.7
IDS NEW DIMENSIONS		Growth	2668.5	37	5.00	0.95†	5.3	0.3
IDS PRECIOUS METALS		Precious metals	44.9	−23	5.00	1.59†	−8.8	0.5
IDS PROGRESSIVE		Growth	209.0	60	5.00	1.06†	20.2	1.3
IDS STOCK		Growth/income	1719.5	5	5.00	0.72†	6.8	3.0
IDS STRATEGY AGGRESSIVE EQUITY		Maximum growth	563.0	16	5.00**	1.75†	−1.0	0.0
IDS STRATEGY EQUITY		Growth/income	659.4	42	5.00**	1.63†	12.6	2.1
IDS STRATEGY WORLDWIDE GROWTH		World	46.3	11	5.00**	2.84†	−6.8	0.0
IDS UTILITIES INCOME		Utilities	509.6	56	5.00	0.92†	10.3	5.0
INCOME FUND OF AMERICA		Income	6501.5	84	5.75	0.66†	12.0	6.0
INTERNATIONAL EQUITY		Foreign	172.4	48	No load	0.75	−3.1	0.8
INVESTMENT COMPANY OF AMERICA		Growth/income	15428.4	47	5.75	0.59†	7.0	2.6
INVESTORS RESEARCH		Growth	58.9	−21	6.75	0.91	−9.7	1.3
IVY GROWTH	AVG	Growth	192.4	−17	5.75	1.31†	5.2	0.9
IVY INTERNATIONAL		Foreign	107.0	11	5.75	1.69†	0.1	1.4
JANUS		Growth	5831.9	95	No load	0.96	6.9	1.5
JANUS GROWTH & INCOME		Growth/income	311.0	233	No load	1.62	5.4	1.1
JANUS TWENTY		Growth	3137.2	133	No load‡	1.01	2.0	0.7
JANUS VENTURE		Small company	1706.4	17	No load‡	1.00	7.4	2.3
JANUS WORLDWIDE		World	208.3	615	No load	1.96	9.0	1.1
JAPAN		Pacific	409.1	22	No load	1.45	−16.7	0.0
KAUFMANN		Maximum growth	313.2	124	0.20*	3.04†	11.3	0.0
KEMPER BLUE CHIP		Growth/income	199.5	163	5.75	1.66	−1.2	1.1
KEMPER ENVIRONMENTAL SERVICES		Specialty	51.6	−21	5.75	1.53	−8.6	0.0
KEMPER GROWTH		Growth	1660.4	69	5.75	1.03	−1.6	0.2
KEMPER INTERNATIONAL		Foreign	171.1	−5	5.75	1.41	−4.8	2.2
KEMPER INVESTMENT GROWTH	AVG	Growth	755.4	38	3.00**	2.07†	−2.8	0.0
KEMPER INVESTMENT TOTAL RETURN		Balanced	1102.4	48	3.00**	2.03†	4.4	2.4
KEMPER RETIREMENT I		Balanced	123.1	−7	5.00‡	0.92	1.9	4.8
KEMPER RETIREMENT II		Balanced	198.3	18	5.00‡	0.93	3.1	4.2
KEMPER RETIREMENT III		Balanced	130.8	NM	5.00	NA	12.1§	
KEMPER SMALL CAP. EQUITY (z)		Small company	410.2	16	5.75	1.27	0.1	0.0
KEMPER TECHNOLOGY		Technology	594.6	−8	5.75	0.81	−1.2	0.0

*Includes redemption fee. **Includes deferred sales charge †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not r
(x) Formerly Country Capital Growth Fund (y) Formerly IDEX II (z) Formerly Kemper Summit Fund

SCOREBOARD

EQUITY FUNDS

RESULTS N'L TOTAL RET (%) 5 YEARS	10 YEARS	TREND BW 10-YEAR ANALYSIS	PORTFOLIO DATA TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING COMPANY	% ASSETS	RISK	TELEPHONE TOLL FREE (800)	IN-STATE
15.6			Low	12	18.0	CS Holding	2	Average	422-1050	OH 419-247-2477
13.8			Low	3	17.8	RJR Nabisco	4	Average	422-1050	OH 419-247-2477
24.5	13.5		High	9	43.4	Electronic Arts	6	Very high	343-2898	MA 617-338-3400
19.0			Average	1	14.1	Trak Auto	6	Average	432-7856	WI 414-347-7276
not rated			Very low	5	21.5	Philip Morris	5		338-4345	
			Low	2	16.5	Allied-Signal	5		338-4345	
not rated				3	21.9	Exxon	2		338-4345	
			Average	12	22.5	First Financial	2		338-4345	
14.2			Very low	5	25.3	Xerox	4	Low	338-4345	
not rated			Average	4	20.2	Dillard Department Stores A	2		338-4345	
13.2			Average	10	22.4	FNMA	5	Average	421-4184	FL 813-573-8143
			Low	6	21.4	Amoco	3		433-6884	
12.4	12.4		Average	4	20.2	Archer-Daniels-Midland	4	Low		IL 309-557-3222
5.9			Low	6	21.2	Kamigumi	4	High	945-3863	MN 612-376-2600
16.9	15.9		High	18	17.5	General Mills	3	Low	945-3863	MN 612-376-2600
11.6	13.1		Very high	5	24.2	Philip Morris	4	Average	945-3863	MN 612-376-2600
22.1			Average	20	24.9	Home Depot	5	Average	624-4339	FL 813-585-6565
21.6			High	14	24.7	Home Depot	5	Average	624-4339	FL 813-585-6565
22.7			High	22	25.4	Home Depot	5	Average	624-4339	FL 813-585-6565
not rated			High	1	20.9	Pfizer	5		328-8300	MN 612-671-3733
19.7	11.6		High	21	35.5	Cisco Systems	3	High	328-8300	MN 612-671-3733
not rated			Low	14	21.7	Dow Chemical	1		328-8300	MN 612-671-3733
14.7	13.6		Average	9	24.8	Sherwin-Williams	3	Average	328-8300	MN 612-671-3733
not rated			Low	16	31.4	Air Liquide	3		328-8300	MN 612-671-3733
19.2	13.6		Average	7	33.1	Home Depot	6	High	328-8300	MN 612-671-3733
5.6			Average	1	22.8	Saint Gobain	3	High	328-8300	MN 612-671-3733
17.7			Average	7	23.6	General Electric	3	Average	328-8300	MN 612-671-3733
12.1	14.0		Average	3	18.5	Dow Chemical	1	Low	328-8300	MN 612-671-3733
18.9	17.7		Average	12	28.5	Intel	4	Average	328-8300	MN 612-671-3733
−7.5			Low	3	30.5	Freeport-McM Cop/Gold A	13	Very high	328-8300	MN 612-671-3733
10.6	10.7		High	14	18.1	Longview Fibre	3	Average	328-8300	MN 612-671-3733
14.7	14.1		Average	3	21.7	General Electric	2	Low	328-8300	MN 612-671-3733
16.4			Average	21	34.9	Wal-Mart Stores	4	High	328-8300	MN 612-671-3733
15.5			Average	12	20.0	Primerica	2	Average	328-8300	MN 612-671-3733
2.1			Average	4	26.6	Roche Hldngs Genusscheine	3	High	328-8300	MN 612-671-3733
			Average	5	17.5	Southern	1		328-8300	MN 612-671-3733
13.7	14.2		Low	6	20.7	IBM	2	Very low	421-0180	CA 415-421-9360
5.4			Average	2	24.2	Ito-Yokado	2	High	344-8332	NY 212-841-3841
14.9	15.9		Very low	3	19.6	Philip Morris	6	Low	421-0180	CA 213-486-9200
8.8	12.2		Average	60	23.5	Constar International	3	High	732-1733	CA 310-595-7711
13.6	14.8		Very high	0	22.0	General Electric	4	Average	456-5111	FL 407-393-8900
11.1			High	4	19.9	Swire Pacific Cl A	3	High	456-5111	FL 407-393-8900
20.9	16.7		High	27	26.8	Roche Hldngs Genusscheine	4	Low	525-8983	
not rated			High	9	23.2	Amgen	5		525-8983	
25.5			Average	20	26.8	FNMA	6	Average	525-8983	
21.3			Very high	22	21.7	Life Re	3	Low	525-8983	
not rated			High	30	28.4	CP Pokphand	4		525-8983	
−0.9	14.8		Average	1	22.0	Canon	3	Very high	535-2726	MA 617-439-4640
34.3			Average	0	30.2	Viking Office Products	3	High	237-0132	NY 212-344-2661
11.7			Very high	9	25.9	Philip Morris	5	Average	621-1048	IL 312-781-1121
not rated			Average	5	26.4	Waste Management	4		621-1048	IL 312-781-1121
19.9	16.0		Average	1	28.6	Walt Disney	3	Average	621-1048	IL 312-781-1121
6.0	14.0		Very high	8	15.5	China Light & Power	3	High	621-1048	IL 312-781-1121
16.7			High	2	26.5	Toys 'R' Us	3	Average	621-1048	IL 312-781-1121
14.9			Average	7	27.1	General Re	2	Low	621-1048	IL 312-781-1121
not rated			Average	0	26.3	Philip Morris	1		621-1048	IL 312-781-1121
not rated			Average	0	26.6	Philip Morris	1		621-1048	IL 312-781-1121
not rated				1	26.6	Toys 'R' Us	1		621-1048	IL 312-781-1121
16.9	13.9		High	0	29.2	Fruit Of The Loom Cl A	3	High	621-1048	IL 312-781-1121
13.1	12.5		Average	2	27.6	Nucor	5	High	621-1048	IL 312-781-1121

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE ASSETS $ MIL.	SIZE % CHG. 1991-92	FEES SALES CHARGE (%)	FEES EXPENSE RATIO (%)	CURRENT RESULTS 1992 TOTAL RET. (%)	CURRENT RESULTS 1992 YIELD
KEMPER TOTAL RETURN	▲	Balanced	1293.9	19	5.75	1.03	2.5	2.7
KEYSTONE AMERICA OMEGA	AVG	Maximum growth	73.2	25	4.75	1.54†	3.9	0.0
KEYSTONE CUSTODIAN K-1	▲	Balanced	1335.8	25	4.00**	1.97†	3.5	4.2
KEYSTONE CUSTODIAN K-2	AVG	Growth	359.2	−2	4.00**	1.62†	13.6	0.3
KEYSTONE CUSTODIAN S-1	▼	Growth/income	231.6	21	4.00**	2.08†	0.1	1.2
KEYSTONE CUSTODIAN S-3	▼	Growth	288.7	4	4.00**	1.69†	5.2	0.0
KEYSTONE CUSTODIAN S-4	▼	Maximum growth	930.4	19	4.00**	1.47†	9.7	0.0
KEYSTONE INTERNATIONAL	▼ ▼ ▼	Foreign	65.3	−9	4.00**	3.44†	2.4	0.7
KEYSTONE PRECIOUS METALS	▼ ▼ ▼	Precious metals	107.2	−19	4.00**	2.98†	−13.6	0.8
KIDDER PEABODY EQUITY-INCOME	AVG	Equity-income	148.6	45	5.75	1.27†	−2.9	1.7
KIDDER PEABODY GLOBAL EQUITY		World	116.6	NM	5.75	1.62†	3.3	0.0
KLEINWORT INTL. EQUITY	▼ ▼	Foreign	56.3	−15	No load	1.88†	−3.4	0.2
LAUREL STOCK	▲ ▲	Growth/income	48.8	54	No load	0.90†	7.6	1.5
LAZARD SPECIAL EQUITY	▲ ▲	Small company	150.4	35	No load	1.72	15.5	3.4
LEEB PERSONAL FINANCE		Growth	47.0	37	No load	1.47†	6.2	1.3
LEGG MASON SPECIAL INVESTMENT	▲	Small company	287.4	76	No load	2.10†	15.5	0.6
LEGG MASON TOTAL RETURN	AVG	Growth/income	110.9	177	No load	2.30†	14.3	2.3
LEGG MASON VALUE	AVG	Growth	842.0	13	No load	1.90†	11.4	0.9
LEXINGTON CORPORATE LEADERS	▲	Growth/income	105.8	8	No load	0.63	9.6	2.2
LEXINGTON GLOBAL	▼ ▼	World	50.4	−6	No load	1.53	−3.5	0.6
LEXINGTON GOLDFUND	▼ ▼ ▼	Precious metals	71.8	−25	No load	1.55†	−20.5	0.5
LEXINGTON GROWTH & INCOME	▼	Growth/income	125.9	3	No load	1.09†	12.4	1.8
LIBERTY FINANCIAL UTILITIES		Utilities	106.7	NM	4.50	1.25†	10.4	5.6
LIBERTY UTILITY		Utilities	651.1	95	4.50	1.09	9.1	5.7
LINDNER	▲	Growth	1073.8	28	2.00*	0.80	12.8	2.6
LINDNER DIVIDEND	▲ ▲ ▲	Income	711.6	203	2.00*	0.80	21.1	7.2
LORD ABBETT DEVELOPING GROWTH	▼ ▼	Small company	150.0	−6	5.75	1.14†	−3.1	0.2
LORD ABBETT VALUE APPRECIATION	AVG	Growth	173.4	4	5.75	1.14†	13.5	1.7
MAINSTAY CAPITAL APPRECIATION	▼	Growth	135.2	98	5.00**	2.00†	11.0	0.0
MAINSTAY TOTAL RETURN	▲	Balanced	367.3	123	5.00**	2.00†	3.6	1.5
MAINSTAY VALUE	▲ ▲	Growth/income	102.3	103	5.00**	1.90†	19.5	0.3
MASSACHUSETTS INV. GROWTH STOCK	▼ ▼	Growth	1080.2	0	5.75	0.64†	6.4	0.0
MASSACHUSETTS INVESTORS	▲	Growth/income	1546.4	1	5.75	0.61†	7.4	2.3
MATHERS	▲ ▲	Growth	554.2	7	No load	0.94	3.1	3.4
MENTOR GROWTH	▼	Growth	136.0	26	5.00**	2.17†	15.6	0.0
MERRILL LYNCH BALANCED B	AVG	Balanced	877.5	−15	4.00**	1.89†	3.0	3.2
MERRILL LYNCH BASIC VALUE A	▼	Growth/income	1712.2	9	6.50	0.58	10.4	3.3
MERRILL LYNCH CAPITAL B		Growth/income	2381.2	86	4.00**	1.56†	4.0	2.5
MERRILL LYNCH DEVEL. CAPITAL MKT.		Foreign	123.6	13	6.00*	1.64	−5.8	0.8
MERRILL LYNCH EUROFUND B	▼ ▼ ▼	Europe	456.1	−7	4.00**	2.16†	−6.4	0.0
MERRILL LYNCH FD. FOR TOMORROW B	AVG	Growth	454.3	−5	4.00**	1.93†	5.1	2.6
MERRILL LYNCH GLOBAL ALLOC. B		Asset allocation	1117.4	534	4.00**	2.13†	11.1	6.4
MERRILL LYNCH GLOBAL UTILITY B		Utilities	208.9	114	4.00**	1.88†	8.3	3.6
MERRILL LYNCH GROWTH B	▼	Growth	780.6	−5	4.00**	1.88†	8.8	0.0
MERRILL LYNCH HEALTHCARE A (aa)	▼ ▼	Health care	71.6	−49	6.50	1.56	3.2	13.8
MERRILL LYNCH INTERNATIONAL A	▼ ▼	World	168.3	−6	6.50	1.49	4.3	0.5
MERRILL LYNCH LATIN AMERICA B		Foreign	133.4	93	6.00***	2.61†	1.3	2.2
MERRILL LYNCH NATURAL RESOURCES B	▼ ▼ ▼	Natural resources	213.7	−22	4.00**	2.00†	−6.8	0.7
MERRILL LYNCH PACIFIC A	▼ ▼ ▼	Pacific	284.7	−7	6.50	1.01	−8.5	4.6
MERRILL LYNCH PHOENIX A	AVG	Growth	153.5	26	6.50	1.40	26.7	5.7
MERRILL LYNCH SPECIAL VALUE A	▼ ▼	Small company	63.4	27	6.50	1.55	17.0	0.1
MERRILL LYNCH STRAT. DIV. B	AVG	Equity-income	223.4	−15	4.00**	1.91†	7.8	2.5
MERRILL LYNCH TECHNOLOGY A	▼	Technology	94.2	NM	6.50	NA	33.2§	
MERRIMAN CAPITAL APPRECIATION (bb)		Growth	45.8	−7	No load	1.46	3.1	1.0
METLIFE-STATE ST. CAPITAL	▼	Maximum growth	165.7	65	4.50	1.50†	9.1	0.0
METLIFE-STATE ST. EQUITY INVEST.	▼	Growth	42.8	−9	4.50	1.50†	9.5	0.3
METLIFE-STATE ST. EQUITY-INCOME	AVG	Equity-income	48.1	−3	4.50	1.50†	12.8	3.6
METLIFE-STATE ST. MANAGED		Asset allocation	81.1	16	4.50	1.25†	8.0	3.1
MFS CAPITAL DEVELOPMENT (cc)	▼	Growth	696.5	−6	5.75	0.88†	7.7	1.2
MFS EMERGING GROWTH (dd)	▼ ▼	Small company	303.2	17	5.75	1.43†	7.6	0.0

*Includes redemption fee **Includes deferred sales charge †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not
(aa) Formerly Sci/Tech Holdings Class A (bb) Formerly Merriman Timed Cap. Appreciation Fund (cc) Formerly Massachusetts Capital Development Fund (dd) Formerly Massachusetts Financial Em. Growth Tr

SCOREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA					RISK	TELEPHONE	
N'L TOTAL RET (%)		BW 10-YEAR	TURNOVER	% CASH	P/E	LARGEST HOLDING			TOLL FREE	IN-STATE
5 YEARS	10 YEARS	ANALYSIS			RATIO	COMPANY	% ASSETS		(800)	
14.3	13.0		High	B	24.4	Philip Morris	5	Low	621-1048	IL 312-781-1121
19.5	16.9		High	3	27.4	General Electric	3	Average	343-2898	MA 617-338-3400
11.0	12.4		Average	15	21.1	Philip Morris	2	Low	343-2898	MA 617-338-3400
15.9	14.6		Average	3	27.5	Philip Morris	3	Average	343-2898	MA 617-338-3400
11.4	11.8		High	5	23.8	Wal-Mart Stores	5	Average	343-2898	MA 617-338-3400
14.3	12.3		High	7	25.8	Toys 'R' Us	3	Average	343-2898	MA 617-338-3400
19.8	11.9		Average	1	32.7	Cabletron Systems	3	Very high	343-2898	MA 617-338-3400
1.6	9.9		Average	11	13.6	Bayer	3	High	343-2898	MA 617-338-3400
−6.2			Average	6	25.6	Freeport-McM Cop/Gold A	11	Very high	343-2898	MA 617-338-3400
13.5			Average	4	27.9	Home Depot	5	Low	238-7753	
ot rated				9	19.3	Avon Products	3		238-7753	
6.5	14.9		Average	2	20.8	Roche Hldngs Genusscheine	3	High	233-9164	NY 212-687-2515
16.5			Average	6	20.6	General Electric	3	Low	235-4331	
16.2			Low	10	15.3	Garan	5	Low	228-0203	NY 212-632-6000
ot rated			Average	70	18.8	GTE	2		543-8721	OH 513-629-2000
20.7			Average	10	16.5	Telefonos de Mexico Cl L	3	Average	822-5544	MD 410-539-0000
13.6			Low	16	16.8	Telefonos de Mexico Cl L	2	Average	822-5544	MD 410-539-0000
13.5	15.0		Average	3	16.9	FNMA	7	Average	822-5544	MD 410-539-0000
14.3	16.0			1	19.3	General Electric	B	Low	526-0056	NJ 201-845-7300
6.2			Average	0	23.2	Consolidated Rail	2	High	526-0056	NJ 201-845-7300
−9.1	−0.3		Low	0	27.8	Rustenburg Platinum	6	Very high	526-0056	NJ 201-845-7300
11.9	12.7		High	2	23.7	AMP	3	Average	526-0056	NJ 201-845-7300
ot rated				5	17.2	British Telecommunications	1		872-5426	MA 617-722-6000
			Low	2	16.6	Western Resources	3		245-5051	PA 412-288-1900
12.5	14.1		Very low	8	17.8	Old Republic International	2	Low		MO 314-727-5305
14.9	16.2		Low	7	16.2	Centerior Energy	3	Very low		MO 314-727-5305
10.9	6.5		Very low	12	26.6	Novell	9	High	874-3733	NY 212-848-1800
13.9			Low	9	18.3	Johnson Controls	4	Average	874-3733	NY 212-848-1800
20.3			High	9	28.7	Mylan Laboratories	2	High	522-4202	
13.0			Very high	4	28.1	Adaptec	1	Low	522-4202	
17.5			High	13	17.3	Oryx Energy	3	Low	522-4202	
16.1	13.2		Average	1	33.2	CUC International	5	High	225-2606	MA 617-954-5000
15.5	14.9		Average	6	21.0	Philip Morris	4	Low	225-2606	MA 617-954-5000
9.4	12.6		Average	72	22.9	Intl Technology	3	Very low	962-3863	IL 708-295-7400
16.2			Average	12	24.8	Clayton Homes	3	High	825-5353	VA 804-649-2311
9.5			Very high	1	19.4	Crown Cork & Seal	3	Low	637-3863	NJ 609-282-2800
12.0	14.8		Low	B	21.7	Royal Dutch Petroleum	4	Average	637-3863	NJ 609-282-2800
			Average	2	19.9	American International Grp.	3		637-3863	NJ 609-282-2800
			Average	4	12.9	Philippine Long Distance Tel	3		637-3863	NJ 609-282-2800
6.3			High	6	12.5	Ciba-Geigy	3	High	637-3863	NJ 609-282-2800
14.8			Average	10	21.2	Walt Disney	5	Average	637-3863	NJ 609-282-2800
			Average	24	24.9	Nestle (reg)	1		637-3863	NJ 609-282-2800
ot rated				11	15.0	China Light & Power	4		637-3863	NJ 609-282-2800
15.3			Low	3	32.9	Applied Materials	10	High	637-3863	NJ 609-282-2800
10.8			High	12	28.1	Roche Hldngs Genusscheine	8	High	637-3863	NJ 609-282-2800
8.6			Average	8	23.5	AFLAC	2	Average	637-3863	NJ 609-282-2800
ot rated				2	12.6	Telefonica de Argentina	3		637-3863	NJ 609-282-2800
2.2			Low	9	33.0	Equitable Resources	6	High	637-3863	NJ 609-282-2800
8.6	19.7		Very low	6	28.4	China Light & Power	7	High	637-3863	NJ 609-282-2800
15.9	16.5		Average	11	21.2	Anacomp	4	Average	637-3863	NJ 609-282-2800
9.1	6.8		High	18	20.7	Digital Communication Assn	4	High	637-3863	NJ 609-282-2800
10.0			Very low	14	19.0	Bristol-Myers Squibb	6	Low	637-3863	NJ 609-282-2800
ot rated				36	32.4	Compaq Computer	19		637-3863	NJ 609-282-2800
			High	48	NA	Federated Growth Fund	3		423-4893	WA 206-285-8877
21.3			High	5	31.8	Nike Cl B	3	Very high	882-0052	MA 617-348-2000
13.3			Average	8	25.6	AT&T	3	Average	882-0052	MA 617-348-2000
11.7			High	4	19.6	AMBAC	3	Low	882-0052	MA 617-348-2000
			High	4	28.3	Intel	1		882-0052	MA 617-348-2000
12.0	10.6		High	6	24.1	Philip Morris	4	Average	225-2606	MA 617-954-5000
18.5	13.7		High	5	31.4	Autodesk	6	Very high	225-2606	MA 617-954-5000

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE ASSETS $ MIL.	SIZE % CHG. 1991-92	FEES SALES CHARGE (%)	FEES EXPENSE RATIO (%)	CURRENT RESULTS 1992 TOTAL RET. (%)	CURRENT RESULTS 1992 YIELD
MFS LIFETIME CAPITAL GROWTH (ee)	▲	Growth	444.8	23	6.00**	2.26†	8.2	0.1
MFS LIFETIME EMERGING GROWTH (ff)	▼	Small company	385.5	104	6.00**	2.28†	11.7	0.0
MFS LIFETIME MANAGED SECTORS (gg)	▼	Growth	258.3	14	6.00**	2.34†	3.9	0.0
MFS LIFETIME TOTAL RETURN (hh)	▲	Growth/income	368.5	26	6.00**	2.22†	4.3	3.0
MFS LIFETIME WORLDWIDE EQUITY (ii)	▼ ▼	World	103.9	12	6.00**	2.86†	1.6	0.0
MFS MANAGED SECTORS (jj)	▼	Growth	152.5	9	5.75	1.63†	4.6	0.0
MFS RESEARCH (kk)	AVG	Growth	255.3	2	5.75	0.85†	11.1	0.5
MFS SPECIAL (ll)	AVG	Growth	115.0	3	5.75	1.52†	18.0	0.0
MFS TOTAL RETURN (mm)	▲ ▲	Balanced	1269.1	27	4.75	0.84†	10.1	5.1
MFS WORLDWIDE TOTAL RETURN (nn)		World	46.8	38	4.75	1.90†	5.0	4.6
MONETTA	▲ ▲	Growth	408.0	615	No load	1.41	5.5	0.2
MONITOR GROWTH TRUST SHARES		Growth	90.5	26	No load	0.95	7.9	2.1
MONITOR INC-EQ TRUST SHARES		Equity-income	95.1	19	No load	0.87	7.5	3.4
MONTGOMERY EMERGING MARKETS		Foreign	97.1	NM	2.00*	1.90	0.3§	
MONTGOMERY SMALL CAP		Small company	207.6	180	2.00*‡	1.50	9.6	0.0
MUTUAL BEACON	▲ ▲ ▲	Growth	533.2	34	No load	0.85	22.9	1.6
MUTUAL BENEFIT	▲ ▲ ▲	Growth	48.6	6	4.75	0.85	10.5	1.4
MUTUAL OF OMAHA GROWTH	▼	Growth	120.8	32	4.75	1.22†	1.2	0.0
MUTUAL OF OMAHA INCOME	▲ ▲	Income	250.0	27	4.75	1.04†	7.6	6.4
MUTUAL QUALIFIED	▲ ▲ ▲	Growth/income	1251.9	13	No load‡	0.84	22.7	1.9
MUTUAL SHARES	▲ ▲ ▲	Growth	2915.3	10	No load‡	0.82	21.3	2.1
NATIONAL INCOME & GROWTH A (oo)	▲ ▲ ▲	Balanced	433.3	35	5.75	1.38†	11.9	4.6
NATIONAL STOCK	AVG	Growth	218.8	5	5.75	1.36†	16.8	0.8
NATIONAL TOTAL RETURN	AVG	Equity-income	271.4	0	5.75	1.35†	9.6	2.6
NATIONAL WORLDWIDE OPPORTUNITIES	▼ ▼ ▼	World	93.0	58	5.75	2.15†	3.2	0.0
NATIONS EQUITY INCOME INVESTOR A		Equity-income	167.2	6979	4.50	1.35†	9.8	2.5
NATIONS VALUE INVESTOR A		Growth	281.4	139	4.50	0.53	4.3	2.1
NATIONWIDE	▲	Growth/income	744.5	10	7.50	0.60	3.0	2.2
NATIONWIDE GROWTH	AVG	Growth	354.3	20	7.50	0.65	6.3	1.9
NEUBERGER/BERMAN GENESIS		Small company	87.4	104	No load	2.00	15.6	0.0
NEUBERGER/BERMAN GUARDIAN	▲	Growth/income	1038.5	52	No load	0.84	19.0	1.5
NEUBERGER/BERMAN MANHATTAN	AVG	Growth	514.1	11	No load	1.10	17.8	0.4
NEUBERGER/BERMAN PARTNERS	▲	Growth	974.6	9	No load	0.86	17.5	0.9
NEUBERGER/BERMAN SELECT SECTORS	▲	Growth	497.1	18	No load	0.91	21.1	1.2
NEW ECONOMY	AVG	Growth	1172.1	16	5.75	0.92†	16.8	0.6
NEW PERSPECTIVE	AVG	World	3320.4	35	5.75	0.86†	4.0	1.6
NEW USA MUTUAL		Growth	285.0	NM	5.00	NA†	8.6§	
NEW YORK VENTURE	▲ ▲	Growth	547.9	19	4.75	0.91†	12.2	1.5
NEWPORT TIGER		Pacific	98.7	275	5.00	1.83	22.0	0.4
NICHOLAS	▲ ▲	Growth	2668.2	27	No load	0.76	12.6	1.3
NICHOLAS II	AVG	Small company	742.3	33	No load	0.66	9.4	0.9
NICHOLAS LIMITED EDITION	▲ ▲	Small company	190.2	9	No load‡	0.86	16.8	2.9
NICHOLAS-APPLEGATE GROWTH EQUITY		Maximum growth	122.8	854	5.00**	2.45†	7.8	0.0
NOMURA PACIFIC BASIN	▼ ▼ ▼	Pacific	43.6	−19	No load	1.46	−12.7	0.2
NORTH AMERICAN ASSET ALLOCATION		Asset allocation	55.4	NM	4.00	NA†	6.5§	
OAKMARK		Growth	328.2	3832	No load	2.34	48.9	0.2
OBERWEIS EMERGING GROWTH	▼ ▼	Small company	53.7	176	No load	2.01†	13.7	0.0
OLYMPIC EQUITY-INCOME	▼	Equity-income	65.0	−17	No load	1.00	14.0	3.0
OLYMPUS STOCK	AVG	Growth	48.2	29	4.75	1.66†	2.3	0.1
OPPENHEIMER	▼	Growth	216.1	−6	5.75	1.09†	8.3	1.6
OPPENHEIMER ASSET ALLOCATION	▲ ▲	Asset allocation	266.8	−4	5.75	1.25†	7.5	3.6
OPPENHEIMER DISCOVERY	AVG	Small company	427.1	156	5.75	1.34†	16.6	0.0
OPPENHEIMER EQUITY-INCOME	AVG	Equity-income	1647.7	4	5.75	0.82†	7.1	4.8
OPPENHEIMER GLOBAL	▼ ▼	World	1167.2	0	5.75	1.35†	−14.2	0.4
OPPENHEIMER GLOBAL BIO-TECH	▼ ▼	Health care	223.7	11	5.75	1.23†	−22.9	0.0
OPPENHEIMER GLOBAL ENVIRONMENT		Specialty	49.9	−15	5.75	1.61†	−11.6	0.0
OPPENHEIMER GLOBAL GROWTH & INCOME		World	50.7	61	5.75	1.65†	−6.2	2.0
OPPENHEIMER GOLD & SPECIAL MINERALS	▼ ▼ ▼	Precious metals	109.9	−19	5.75	1.38†	−10.1	1.5
OPPENHEIMER SPECIAL	AVG	Growth	751.3	13	5.75	0.90†	13.4	0.8
OPPENHEIMER TARGET	AVG	Maximum growth	401.2	9	5.75	1.05†	10.3	0.6

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits §New fund, less than 12 months' total return. NA = Not available. NM = Not m
(ee) Formerly MFS Lifetime Capital Growth Trust (ff) Formerly MFS Lifetime Emerging Growth Trust (gg) Formerly MFS Lifetime Managed Sectors Trust (hh) Formerly MFS Lifetime Total Return Trust (ii) Formerly MFS Lifeti
Equity Trust (jj) Formerly MFS Managed Sectors Trust (kk) Formerly Massachussets Finl. Development Fund (ll) Formerly Massachusetts Financial Special Fund (mm) Formerly Massachusetts Financial Total Ret. Tr. (nn

SCOREBOARD

EQUITY FUNDS

RESULTS: TOTAL RET. (%) 5 YEARS	10 YEARS	TREND: BW 10-YEAR ANALYSIS	PORTFOLIO DATA: TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING: COMPANY	% ASSETS	RISK	TELEPHONE: TOLL FREE (800)	IN-STATE
15.6			Average	5	18.2	Philip Morris	5	Low	225-2606	MA 617-954-5000
23.1			High	3	31.9	CUC International	6	Very high	225-2606	MA 617-954-5000
16.1			Average	3	37.4	Tele-Communications Cl A	8	High	225-2606	MA 617-954-5000
10.4			Average	8	20.6	Philip Morris	3	Very low	225-2606	MA 617-954-5000
6.0			Very high	7	22.2	Astra Cl B	3	Average	225-2606	MA 617-954-5000
6.9			Average	2	37.3	Tele-Communications Cl A	10	High	225-2606	MA 617-954-5000
4.0	13.1		Very high	5	24.8	Philip Morris	3	Average	225-2606	MA 617-954-5000
4.8			High	12	22.2	Reebok International	3	Average	225-2606	MA 617-954-5000
3.1	14.2		Average	9	22.6	Philip Morris	2	Very low	225-2606	MA 617-954-5000
t rated			High	12	21.3	China Light & Power	2		225-2606	MA 617-954-5000
21.0			High	30	22.7	Forest Laboratories	3	Average	666-3882	IL 708-462-9800
			Very low	5	21.1	Sonoco Products	2		253-0412	OH 614-463-5580
			Low	17	17.8	Dun & Bradstreet	3		253-0412	OH 614-463-5580
t rated				22	16.3	United Overseas Bank	2		428-1871	CA 415-627-2400
t rated			Average	8	27.9	LDDS Communications Cl A	3		428-1871	CA 415-627-2400
5.0	13.7		Average	15	20.2	Sunbeam-Oster Equities	7	Very low	553-3014	NJ 201-912-2100
7.4	15.8		Very low	18	19.1	Gillette	9	Low	323-4726	RI 401-751-8600
9.9	14.8		Low	3	32.6	Sci-Med Life Systems	8	High	228-9596	NE 402-397-8555
1.4	11.6		Average	5	18.5	Corning	3	Very low	228-9596	NE 402-397-8555
4.8	17.1		Average	13	20.4	Sunbeam-Oster Equities	7	Very low	553-3014	NJ 201-912-2100
4.7	17.3		Average	17	20.3	Sunbeam-Oster Equities	7	Very low	553-3014	NJ 201-912-2100
4.2	14.9		Low	3	16.7	Philip Morris	3	Very low	356-5535	CT 203-863-5600
5.5	13.2		Average	3	21.9	Mattel	4	Average	356-5535	CT 203-863-5600
3.9	13.5		Low	1	17.6	Philip Morris	9	Average	356-5535	CT 203-863-5600
3.8	4.6		Average	0	27.5	Nintendo	2	High	356-5535	CT 203-863-5600
t rated				29	19.5	Bristol-Myers Squibb	2		321-7854	
			Average	7	18.5	SmithKline Beecham	2		321-7854	
6.0	15.5		Low	7	20.8	Philip Morris	5	Low	848-0920	OH 614-249-7855
3.5	14.9		Very low	17	22.4	Grand Metropolitan	6	Average	848-0920	OH 614-249-7855
			Low	4	17.0	ShopKo Stores	2		877-9700	NY 212-476-8800
8.8	16.0		Average	7	18.9	AT&T	3	Average	877-9700	NY 212-476-8800
6.7	16.8		Average	3	25.1	SLMA	4	Average	877-9700	NY 212-476-8800
4.1	14.8		High	7	19.5	Loews	3	Low	877-9700	NY 212-476-8800
6.5	14.1		Average	2	19.7	FNMA	4	Average	877-9700	NY 212-476-8800
5.7			Low	12	22.0	Liberty Media Cl A	6	Average	421-0180	CA 213-486-9200
1.7	15.3		Very low	17	20.5	Philip Morris	3	Low	421-0180	CA 213-486-9200
t rated				17	27.0	Home Depot	2		222-2872	
0.1	18.2		Low	2	18.4	FNMA	5	Low	279-0279	NM 505-983-4335
			Average	5	15.2	Development Bk Singapore	5		776-5455	
7.5	15.9		Very low	11	19.1	Philip Morris	4	Low		WI 414-272-6133
4.6			Very low	10	18.7	Mercury General	3	Average		WI 414-272-6133
9.7			Low	4	19.2	Heilig-Meyers	3	Average		WI 414-272-6133
t rated				6	28.3	Cisco Systems	3		225-1852	
3.1			Average	15	29.9	Tokyo Steel	4	Very high	833-0018	NY 212-667-9300
t rated				14	21.6	Philip Morris	2		872-8037	MA 617-266-6004
t rated				8	19.0	Liberty Media Cl A	8		476-9625	
3.1			High	1	22.2	Read-Rite	3	Very high	323-6166	IL 708-897-7100
3.5			Low	1	19.9	American Brands	5	Average	346-7301	CA 213-623-7833
7.2			Very high	8	27.4	Pfizer	3	Average	950-2748	CA 310-553-6740
2.3	9.5		Average	7	21.1	BankAmerica	2	Average	525-7048	CO 303-671-3200
1.3			High	0	21.2	MCI Communications	1	Very low	525-7048	CO 303-671-3200
2.3			High	14	32.4	Michaels Stores	2	High	525-7048	CO 303-671-3200
0.9	14.3		Low	0	19.5	Texas Utilities	1	Low	525-7048	CO 303-671-3200
2.5	14.1		Low	11	24.9	Astra	4	High	525-7048	CO 303-671-3200
9.1			Very low	16	NA	Amgen	7	Very high	525-7048	CO 303-671-3200
t rated			Low	7	21.2	Industrie de Tran Auto	3		525-7048	CO 303-671-3200
t rated				11	24.5	Astra Cl A	2		525-7048	CO 303-671-3200
0.7			Average	2	25.3	American Barrick Resources	7	Very high	525-7048	CO 303-671-3200
7.9	12.3		Low	3	21.4	Home Depot	2	Average	525-7048	CO 303-671-3200
9.0	11.0		Average	3	20.9	US Healthcare	3	Average	525-7048	CO 303-671-3200

e Total Return Trust (oo) Formerly National Total Income Fund Class A

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE ASSETS $ MIL.	SIZE % CHG. 1991-92	FEES SALES CHARGE (%)	FEES EXPENSE RATIO (%)	CURRENT RESULTS 1992 TOTAL RET. (%)	CURRENT RESULTS 1992 YIELD
OPPENHEIMER TIME	AVG	Growth	385.9	−4	5.75	0.96†	1.7	0.3
OPPENHEIMER TOTAL RETURN	AVG	Growth/income	796.8	43	5.75	0.93†	12.8	2.4
OPPENHEIMER VALUE STOCK	▲	Growth/income	59.3	20	5.75	1.17†	9.6	2.2
PACIFIC HORIZON AGGRESSIVE GROWTH		Maximum growth	174.5	16	4.50	1.44†	−2.0	0.0
PACIFICA BALANCED		Balanced	72.2	29	4.50	1.05†	8.8	3.6
PACIFICA EQUITY VALUE (pp)		Growth	102.4	31	4.50	1.02†	10.5	1.8
PAINEWEBBER ASSET ALLOCATION B	▲	Asset allocation	239.1	−34	5.00**	2.02†	4.5	1.9
PAINEWEBBER ATLAS GLOBAL A		World	141.5	−33	4.50	1.63†	−8.7	0.0
PAINEWEBBER BLUE CHIP GROWTH B	AVG	Growth	68.5	−36	5.00**	2.19†	6.1	0.0
PAINEWEBBER DIVIDEND GROWTH A	▲ ▲	Growth/income	366.6	54	4.50	1.22†	3.9	1.1
PAINEWEBBER EUROPE GROWTH A		Europe	85.1	−36	4.50	2.00†	−9.5	0.0
PAINEWEBBER GLOB. GRTH. & INC A		World	62.8	−26	4.50	1.75†	−3.3	2.8
PAINEWEBBER GROWTH A	▲	Growth	102.5	7	4.50	1.43†	4.2	0.4
PAINEWEBBER REGIONAL FINL. GRTH. A	▲ ▲ ▲	Financial	46.8	4	4.50	1.72†	38.7	0.1
PARKSTONE BALANCED		Balanced	46.8	NM	4.50	1.17	11.2§	
PARKSTONE EQUITY		Growth/income	571.2	58	4.50	1.18	14.7	0.6
PARKSTONE HIGH-INCOME EQUITY		Equity-income	366.1	69	4.50	1.19	9.5	3.5
PARKSTONE SMALL CAPITALIZATION (qq)		Small company	279.9	77	4.50	1.19	15.4	0.0
PARNASSUS		Growth	56.2	77	3.50	1.58	36.8	0.1
PASADENA BALANCED RETURN (rr)	▲ ▲	Balanced	75.1	382	5.50	2.50	4.5	0.6
PASADENA GROWTH	▲	Growth	625.6	93	5.50	1.80	2.3	1.1
PASADENA NIFTY FIFTY		Growth	195.1	204	5.50	1.90	3.7	0.0
PAX WORLD	▲ ▲ ▲	Balanced	468.6	73	No load	1.10†	0.6	4.7
PENN SQUARE MUTUAL	AVG	Growth/income	233.9	2	4.75	0.95†	8.8	2.3
PENNSYLVANIA MUTUAL	▲ ▲	Small company	1100.2	39	1.00*	0.91	16.2	1.2
PEOPLES INDEX		Growth/income	89.1	38	1.00*	NA	7.7	2.6
PEOPLES S&P MIDCAP INDEX		Growth	45.1	801	1.00*	NA	12.0	1.6
PERMANENT PORTFOLIO		Balanced	65.5	−9	No load	1.13†	2.5	1.9
PFAMCO STRATEGIC ALLOCATION		Asset allocation	98.4	NM	No load	NA	9.0§	
PHILADELPHIA	AVG	Growth/income	87.7	4	No load	1.82†	19.7	1.2
PHOENIX BALANCED	▲ ▲	Balanced	2349.2	112	4.75	1.02†	6.7	3.1
PHOENIX CAPITAL APPRECIATION		Growth	248.6	68	4.75	1.48†	8.1	0.7
PHOENIX GROWTH	▲	Growth	2385.8	64	4.75	1.20†	4.3	1.5
PHOENIX STOCK		Maximum growth	131.4	1	4.75	1.30†	7.7	1.6
PHOENIX TOTAL RETURN	▲	Asset allocation	58.0	65	4.75	1.56†	10.3	1.5
PILGRIM MAGNACAP	AVG	Growth	204.3	−1	3.00	1.60†	8.0	1.1
PIONEER	AVG	Growth/income	1786.0	11	5.75	0.87†	13.6	2.2
PIONEER CAPITAL GROWTH		Growth	96.0	284	5.75	1.55†	29.0	0.0
PIONEER EQUITY-INCOME		Equity-income	52.0	333	5.75	1.75†	20.9	3.5
PIONEER II	AVG	Growth/income	4124.0	−1	5.75	0.85†	9.4	2.2
PIONEER THREE	AVG	Small company	873.0	20	5.75	0.74†	20.1	1.6
PIPER JAFFRAY EMERGING GROWTH		Small company	110.1	98	4.00	1.30†	7.3	0.0
PIPER JAFFRAY VALUE	▲	Growth	199.6	86	4.00	1.29†	2.8	0.9
PNC GROWTH EQUITY (ss)		Growth	67.0	24	4.50	0.85†	−1.0	1.8
PORTICO BALANCED		Balanced	51.6	NM	No load	0.73	11.5§	
PORTICO EQUITY INDEX		Growth/income	86.0	57	No load	0.50	7.0	2.3
PORTICO INCOME & GROWTH		Equity-income	140.6	38	No load	0.75	5.5	3.0
PORTICO SPECIAL GROWTH		Growth	238.0	85	No load	0.79	7.2	0.6
PREFERRED GROWTH		Growth	102.1	NM	No load	NA	14.5§	
PREFERRED VALUE		Growth/income	111.7	NM	No load	NA	7.4§	
T. ROWE PRICE BALANCED		Balanced	250.0	930	No load	1.00	6.3	3.7
T. ROWE PRICE CAPITAL APPRECIATION	▲ ▲	Growth	359.3	67	No load	1.11	9.4	4.3
T. ROWE PRICE EQUITY INDEX		Growth/income	128.2	480	No load	0.45	7.2	2.5
T. ROWE PRICE EQUITY-INCOME	▲ ▲	Equity-income	2091.5	57	No load	1.05	14.1	3.9
T. ROWE PRICE EUROPEAN STOCK		Europe	173.8	67	No load	1.71	−5.6	1.8
T. ROWE PRICE GROWTH & INCOME	▲	Growth/income	839.6	28	No load	0.90	15.3	3.8
T. ROWE PRICE GROWTH STOCK		Growth	1946.2	5	No load	0.86	6.0	0.9
T. ROWE PRICE INTL. DISCOV.		Foreign	166.4	0	No load	1.50	−9.1	1.1
T. ROWE PRICE INTL. STOCK		Foreign	1949.6	32	No load	1.10	−3.5	1.8
T. ROWE PRICE JAPAN		Pacific	45.8	NM	No load	NA	−13.1§	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not meaningful. (pp) Formerly Pacifica Growth Fund (qq) Formerly Parkstone Small Capitalization Value Fd (rr) Formerly Pasadena Fundamental Value Fund (ss) Formerly PNC Capital Appreciation Portfolio

SCOREBOARD

EQUITY FUNDS

RESULTS N'L TOTAL RET. (%) 5 YEARS	10 YEARS	TREND BW 10-YEAR ANALYSIS	PORTFOLIO DATA TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING COMPANY	% ASSETS	RISK	TELEPHONE TOLL FREE (800)	IN-STATE
13.9	14.4		Average	17	28.0	Intl Game Technology	3	Average	525-7048	CO 303-671-3200
14.8	14.5		Very high	1	21.3	Texas Utilities	2	Average	525-7048	CO 303-671-3200
13.7			Low	12	20.5	Minnesota Mining & Mfg	3	Low	525-7048	CO 303-671-3200
19.4			Average	3	29.3	Intl Game Technology	6	Very high	332-3863	
not rated			Low	13	16.1	Philip Morris	3		662-8417	NY 212-309-8400
not rated			Low	19	17.4	First Tennessee National	2		662-8417	NY 212-309-8400
9.3			Average	1	20.2	Gillette	2	Very low	647-1568	NJ 201-902-7341
5.8			Average	13	20.7	Mannesmann	2	High	647-1568	NJ 201-902-7341
13.9			Low	11	26.5	Policy Management Systems	3	Average	647-1568	NJ 201-902-7341
15.6			Average	5	20.1	Philip Morris	4	Low	647-1568	NJ 201-902-7341
not rated			High	6	13.0	Burmah Castrol	4		647-1568	NJ 201-902-7341
			Average	8	21.1	Mannesmann	2		647-1568	NJ 201-902-7341
18.4			Low	16	27.1	Tele-Communications Cl A	3	Average	647-1568	NJ 201-902-7341
23.1			Low	6	13.4	Mercantile Bancorp (mo)	3	Average	647-1568	NJ 201-902-7341
not rated				3	26.4	US Healthcare	2		451-8377	OH 614-899-4668
			High	2	27.6	Oracle Systems	3		451-8377	OH 614-899-4668
			Average	5	18.1	Philip Morris	3		451-8377	OH 614-899-4668
			High	3	33.6	CML Group	3		451-8377	OH 614-899-4668
19.2			Low	3	22.3	Compaq Computer	6	High	999-3505	CA 415-362-3505
16.9			Very low	4	25.1	Eli Lilly	4	Low	882-2855	CA 818-351-4276
25.1			Low	1	28.9	US Surgical	4	High	882-2855	CA 818-351-4276
not rated			Low	2	27.3	Berkshire Hathaway	6		882-2855	CA 818-351-4276
13.4	13.3		Low	5	19.0	Campbell Soup	5	Very low	767-1729	NH 603-431-8022
13.7	13.9		Low	8	21.7	Texaco	2	Low	523-8440	PA 215-670-1031
14.5	15.1		Low	19	20.9	Farmer Brothers	1	Low	221-4268	NY 212-355-7311
not rated			Average	4	21.8	Exxon	2		645-6561	NY 718-895-1206
not rated				4	23.7	General Motors Cl E	1		645-6561	NY 718-895-1206
2.8	4.3		Low	20	26.4	Property Trust America	1	Very low	531-5142	TX 512-453-7558
not rated				5	22.1	Home Depot	1		800-7674	
11.4	10.3		Average	4	28.7	Wells Fargo	6	Average	749-9933	FL 407-395-2155
13.1	15.6		High	22	22.8	General Electric	2	Very low	243-4361	CT 203-253-1000
			Very high	22	25.3	General Electric	3		243-4361	CT 203-253-1000
14.1	17.0		Very high	29	20.1	General Electric	4	Low	243-4361	CT 203-253-1000
10.9	14.6		Very high	14	25.6	Motorola	4	Average	243-4361	CT 203-253-1000
12.6			Very high	35	21.3	Safeco	2	Very low	243-4361	CT 203-253-1000
13.1	15.4		Average	2	22.2	Motorola	7	Average	334-3444	CA 310-551-0833
12.7	12.7		Low	1	21.2	National City	2	Low	225-6292	MA 617-742-7825
not rated			High	6	20.6	Cypress Semiconductor	3		225-6292	MA 617-742-7825
not rated			Low	3	21.0	Brooklyn Union Gas	3		225-6292	MA 617-742-7825
12.5	13.0		Average	5	19.6	American Cyanamid	2	Average	225-6292	MA 617-742-7825
17.4	14.4		Very low	5	19.8	Interpublic Group	2	Average	225-6292	MA 617-742-7825
not rated			Low	5	25.5	Cisco Systems	2		866-7778	MN 612-342-6223
19.2			Low	2	22.4	Philip Morris	3	Average	866-7778	MN 612-342-6223
			Very high	9	22.4	Pioneer Hi-Bred Intl	4		441-7762	DE 302-791-1111
not rated				10	23.6	Philip Morris	2		228-1024	WI 414-287-3808
			Very low	0	21.9	Exxon	3		228-1024	WI 414-287-3808
			Low	20	20.8	Allied-Signal	4		228-1024	WI 414-287-3808
			Average	13	23.4	Cardinal Distribution	3		228-1024	WI 414-287-3808
not rated				1	NA	Pfizer	3		662-4769	
not rated				13	NA	Seven Seas Ser Fd	4		662-4769	
not rated				7	22.0	General Electric	1		638-5660	MD 410-547-2308
14.1			Average	24	21.4	Fund American Enterpr Hldgs	4	Very low	638-5660	MD 410-547-2308
not rated			Very low	6	21.7	Exxon	2		638-5660	MD 410-547-2308
14.1			Low	11	23.0	IBM	2	Low	638-5660	MD 410-547-2308
not rated			Average	6	13.2	EuroDisneyland	2		638-5660	MD 410-547-2308
15.0	12.9		Average	9	21.7	Philip Morris	4	Low	638-5660	MD 410-547-2308
12.5	13.0		Low	3	23.1	FHLMC	4	Average	638-5660	MD 410-547-2308
			Average	5	20.3	Tian An China Investments	2		638-5660	MD 410-547-2308
8.3	16.4		Average	10	17.7	Swire Pacific Cl A	2	High	638-5660	MD 410-547-2308
not rated				6	NA	Aoyama			638-5660	MD 410-547-2308

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE ASSETS $ MIL.	SIZE % CHG. 1991-92	FEES SALES CHARGE (%)	FEES EXPENSE RATIO (%)	CURRENT RESULTS 1992 TOTAL RET. (%)	CURRENT RESULTS 1992 YIELD
T. ROWE PRICE NEW AMERICA GROWTH	AVG	Growth	480.2	107	No load	1.25	9.9	0.0
T. ROWE PRICE NEW ASIA		Pacific	314.5	206	No load	1.75	11.2	1.5
T. ROWE PRICE NEW ERA		Natural resources	699.6	−8	No load	0.84	2.1	2.3
T. ROWE PRICE NEW HORIZONS		Small company	1547.3	5	No load	0.96	10.6	0.0
T. ROWE PRICE OTC SECURITIES (tt)		Small company	186.8	−30	No load	1.34	13.9	0.4
T. ROWE PRICE SCIENCE/TECH.	AVG	Technology	281.0	69	No load	1.25	18.8	0.0
T. ROWE PRICE SMALL-CAP VALUE		Small company	264.0	396	No load	1.25	20.9	0.8
T. ROWE PRICE SPECTRUM GROWTH		Growth	355.1	139	No load	NA	7.2	1.8
T. ROWE PRICE SPECTRUM INCOME		Income	376.4	155	No load	NA	7.8	7.1
PRIME ALTURA VALUGROWTH STOCK (uu)		Growth	87.5	1056	4.00	1.19†	9.6	1.0
PRIMECAP		Growth	646.1	33	No load	0.69	9.0	0.7
PRINCOR CAPITAL ACCUMULATION		Growth	200.2	20	5.00	0.92†	9.1	2.0
PRINCOR GROWTH	AVG	Growth	65.7	29	5.00	1.07†	10.2	1.2
PROVIDENTMUTUAL GROWTH		Growth	131.9	−6	6.00	1.57†	1.9	0.0
PROVIDENTMUTUAL INVESTMENT		Growth	153.1	−18	6.00	1.50†	2.2	1.6
PROVIDENTMUTUAL TOTAL RETURN		Balanced	72.6	NM	6.00	1.52†	12.9	3.6
PRUDENTIAL EQUITY B	AVG	Growth	1202.3	33	5.00**	1.71†	12.7	1.0
PRUDENTIAL EQUITY-INCOME B		Equity-income	203.9	27	5.00**	2.02†	8.4	3.0
PRUDENTIAL FLEXI. CONSERV. B		Asset allocation	255.9	38	5.00**	2.09†	6.6	2.9
PRUDENTIAL FLEXIFUND STRATEGY B		Asset allocation	338.0	26	5.00**	2.06†	3.5	2.7
PRUDENTIAL GLOBAL B		World	171.1	−29	5.00**	2.32†	−5.2	0.1
PRUDENTIAL GROWTH B		Growth	243.3	−12	5.00**	2.15†	3.3	0.4
PRUDENTIAL GROWTH OPPORTUNITY B	AVG	Small company	230.7	62	5.00**	2.16†	20.2	0.0
PRUDENTIAL MULTI-SECTOR B		Growth	96.9	−18	5.00**	2.09†	1.2	1.4
PRUDENTIAL UTILITY B		Utilities	3435.1	21	5.00**	1.68†	9.0	3.7
PUTNAM CORPORATE ASSET		Income	140.9	6	2.50	0.93	9.5	8.0
PUTNAM ENERGY-RESOURCES		Natural resources	102.2	−8	5.75	1.61†	6.8	1.8
PUTNAM FUND FOR GROWTH & INC. A		Growth/income	3791.3	35	5.75	1.07†	11.8	3.9
GEORGE PUTNAM FUND OF BOSTON A		Balanced	657.3	24	5.75	1.06†	8.0	4.8
PUTNAM GLOBAL GROWTH A		World	657.2	0	5.75	1.47†	0.2	0.9
PUTNAM HEALTH SCIENCES		Health care	975.0	8	5.75	1.20†	−10.7	0.5
PUTNAM INVESTORS		Growth	735.4	−3	5.75	0.94†	7.9	1.3
PUTNAM MANAGED INCOME (vv)		Growth/income	639.4	−8	5.75	1.11†	11.4	1.7
PUTNAM NEW OPPORTUNITIES		Growth	237.0	1309	5.75	1.64†	25.5	0.0
PUTNAM OTC EMERGING GROWTH		Small company	322.0	17	5.75	1.39†	12.7	0.0
PUTNAM STRATEGIC INCOME		Equity-income	332.3	−21	5.75	1.20†	4.8	5.1
PUTNAM UTILITIES GROWTH & INC. A		Utilities	415.2	226	5.75	NA†	7.2	6.0
PUTNAM VISTA	AVG	Growth	368.4	17	5.75	0.96†	17.8	1.5
PUTNAM VOYAGER A	AVG	Maximum growth	1932.4	46	5.75	1.20†	9.7	0.0
QUEST FOR VALUE		Growth	168.3	50	5.50	1.72†	17.9	0.4
QUEST FOR VALUE GLOBAL EQUITY		World	108.7	−23	5.50	1.76†	1.8	0.8
QUEST FOR VALUE OPPORTUNITY		Asset allocation	55.1	448	5.50	2.35†	18.0	0.4
QUEST FOR VALUE SMALL CAP.		Small company	54.5	132	5.50	2.05†	21.0	0.0
REICH & TANG EQUITY		Growth	92.7	11	No load	1.14†	17.1	1.7
RETIREMENT PLANNING EQUITY		Growth	47.0	9	5.00**	2.58†	−2.9	0.7
REYNOLDS BLUE CHIP GROWTH		Growth	44.2	28	No load	1.50	0.1	0.5
RIGHTIME		Growth/income	169.3	6	No load	2.60†	4.2	0.1
RIGHTIME BLUE CHIP	AVG	Growth/income	210.5	15	4.75	2.17†	3.3	0.0
ROBERTSON STEPHENS EMERGING GRTH		Small company	277.5	96	No load	1.37†	−2.6	0.0
RODNEY SQUARE MULTI-MGR. GROWTH	AVG	Growth	60.9	7	4.00	1.50†	5.9	0.0
ROYCE EQUITY-INCOME		Equity-income	54.1	32	No load	1.00	19.4	3.9
ROYCE VALUE		Small company	178.2	6	4.50**	1.81†	16.0	0.4
RSI CORE EQUITY		Growth/income	142.5	NM	No load	0.95†	6.3	0.0
RSI EMERGING GROWTH EQUITY		Small company	50.4	NM	No load	2.18†	15.8	0.0
RUSHMORE NOVA		Growth	57.1	10	No load	1.12	−1.0	1.1
SAFECO EQUITY	AVG	Growth/income	84.5	11	No load	0.96	9.3	1.2
SAFECO GROWTH		Small company	171.8	0	No load	0.91	−3.1	0.0
SAFECO INCOME	AVG	Equity-income	185.7	2	No load	0.90	11.5	4.7
SALOMON BROTHERS CAPITAL		Maximum growth	98.7	21	No load	1.38	4.9	0.5
SALOMON BROTHERS INVESTORS	AVG	Growth/income	360.7	0	No load	0.70	7.4	2.3

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available NM = Not
(tt) Formerly USF&G Over-the-Counter Securities Fund (uu) Formerly Prime Value Growth Stock Fund (vv) Formerly Putnam Option Income Trust II

SCOREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA					RISK	TELEPHONE	
INT'L TOTAL RET. (%)		BW 10-YEAR	TURNOVER	% CASH	P/E	LARGEST HOLDING			TOLL FREE	IN-STATE
5 YEARS	10 YEARS	ANALYSIS			RATIO	COMPANY	% ASSETS		(800)	
20.7			Average	7	27.1	Foundation Health	4	High	638-5660	MD 410-547-2308
not rated			Average	8	14.9	City Developments	3		638-5660	MD 410-547-2308
7.9	12.4		Very low	7	28.1	Wal-Mart Stores	8	Average	638-5660	MD 410-547-2308
17.0	10.5		Low	2	29.8	Medco Containment Services	6	High	638-5660	MD 410-547-2308
13.7	12.3		Low	7	20.4	Merisel	2	High	638-5660	MD 410-547-2308
24.5			High	2	29.2	Adaptec	5	Very high	638-5660	MD 410-547-2308
			Low	22	18.1	McGrath Rentcorp	2		638-5660	MD 410-547-2308
not rated			Low	9	23.5	Price New Horizons Fd	23		638-5660	MD 410-547-2308
not rated			Low	13	NA	Price New Income Fund	30		638-5660	MD 410-547-2308
			Low	2	26.2	Healthtrust	2			NY 212-363-3300
14.5			Very low	5	24.4	Intel	4	High	662-7447	PA 215-669-1000
11.8	15.3		Low	1	23.9	General Electric	3	Average	451-5447	IA 515-247-6833
17.4	15.1		Low	11	25.1	United Healthcare	6	High	451-5447	IA 515-247-6833
11.6	13.2		Average	0	29.0	Amgen	2	High	441-9490	DE 302-456-1010
7.4	12.0		Low	1	17.8	Philip Morris	6	High	441-9490	DE 302-456-1010
10.6	12.3		High	3	15.7	BankAmerica	2	Low	441-9490	DE 302-456-1010
15.0	15.4		Low	10	20.5	Digital Equipment	3	Average	225-1852	
13.3			Average	6	21.4	British Petroleum	3	Low	225-1852	
10.5			High	12	21.8	Motorola	2	Very low	225-1852	
11.7			Very high	23	19.9	Emerson Electric	1	Very low	225-1852	
1.4			High	10	21.7	Resorts World	3	High	225-1852	
9.3			High	25	20.6	Charles Schwab	3	Average	225-1852	
16.9	11.2		High	2	20.5	Kansas City Southern	4	Average	225-1852	
not rated			High	20	20.7	Raychem	3		225-1852	
15.4	17.8		Low	8	15.9	Telefonos de Mexico	4	Very low	225-1852	
9.4			High	1	19.1	Cincinnati Gas & Electric	2	Very low	225-1581	MA 617-292-1000
12.0	10.1		Low	7	23.3	Oryx Energy	4	Average	225-1581	MA 617-292-1000
14.7	15.2		Average	17	19.6	ITT	5	Low	225-1581	MA 617-292-1000
12.7	12.6		Average	2	20.1	General Electric	2	Low	225-1581	MA 617-292-1000
7.8	16.4		Average	9	20.8	SMH	1	Average	225-1581	MA 617-292-1000
19.3	14.8		Average	16	24.1	Pfizer	5	Average	225-1581	MA 617-292-1000
14.2	12.8		High	11	24.2	Philip Morris	3	Average	225-1581	MA 617-292-1000
13.4			High	16	25.4	Philip Morris	2	Low	225-1581	MA 617-292-1000
not rated			High	7	35.6	Liberty Media Cl A	2		225-1581	MA 617-292-1000
16.5	19.4		Average	4	26.7	Heilig-Meyers	2	Very high	225-1581	MA 617-292-1000
11.4	10.0		Very high	5	23.2	Xerox	2	Average	225-1581	MA 617-292-1000
not rated				1	17.0	GTE	5		225-1581	MA 617-292-1000
16.7	13.6		High	7	22.5	Royal Dutch Petroleum	1	Average	225-1581	MA 617-292-1000
19.3	17.0		Average	3	29.6	Tele-Communications Cl A	3	High	225-1581	MA 617-292-1000
15.5	15.6		Average	14	17.5	Becton Dickinson	3	Low	232-3863	NY 212-667-7587
not rated			Average	5	18.7	BankAmerica	3		232-3863	NY 212-667-7587
			High	24	17.1	Alliant Techsystems	4		232-3863	NY 212-667-7587
			High	12	18.8	Guaranty National	4		232-3863	NY 212-667-7587
14.5			Average	9	20.1	Hasbro	5	Low	221-3079	NY 212-476-5050
15.1			Very low	1	21.3	AFLAC	7	High	279-0279	NM 505-983-4335
			Very low	1	23.4	Johnson & Johnson	4			CA 415-461-7860
8.5			High	1	NA	Twentieth Century Grw Inv Fd	5	Low	242-1421	PA 215-887-8111
9.6			Low	1	21.8	Exxon	2	Low	242-1421	PA 215-887-8111
22.8			High	7	34.5	Telephone & Data Systems	3	Very high	766-3863	CA 415-781-9700
16.4			Average	12	25.8	Automatic Data Processing	2	Average	225-5084	
			Average	2	19.1	Zero	2		221-4268	NY 212-355-7311
13.4	13.9		Low	11	20.9	Farmer Brothers	1	Low	221-4268	NY 212-355-7311
14.2	15.8		Low	NA	22.0	GTE	7	Low	772-3615	
16.8	13.6		High	0	27.8	LDDS Communications Cl A	3	High	772-3615	
			Very high	75	23.0	IBM	2		343-3355	MD 301-657-1500
16.8	14.5		Average	1	24.4	Microsoft	5	Average	426-6730	WA 206-545-5530
14.3	12.1		Average	6	19.5	First American Financial	6	High	426-6730	WA 206-545-5530
11.7	13.9		Low	2	19.3	GTE	4	Low	426-6730	WA 206-545-5530
11.2	12.3		High	1	19.9	Tambrands	5	High	725-6666	
13.1	12.8		Average	2	19.5	Philip Morris	3	Average	725-6666	

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS	
			ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	1992 TOTAL RET. (%)	YIELD
SALOMON BROTHERS OPPORTUNITY	AVG	Growth	107.0	2	No load	1.30	13.9	1.2
SBSF GROWTH	▲ ▲	Growth/income	110.5	3	No load	1.09	6.7	2.5
SCHWAB 1000		Growth/income	371.0	93	0.50*	NA	8.5	2.1
SCUDDER CAPITAL GROWTH		Growth	1244.7	8	No load	1.04	7.1	0.5
SCUDDER DEVELOPMENT		Small company	923.5	3	No load	1.30	−2.0	0.0
SCUDDER GLOBAL	▲	World	400.5	34	No load	1.59	4.5	0.8
SCUDDER GLOBAL SMALL COMPANY		World	58.1	189	No load	1.50	−0.1	0.6
SCUDDER GROWTH & INCOME	▲ ▲	Growth/income	1168.9	62	No load	0.95	9.6	3.1
SCUDDER INTERNATIONAL		Foreign	1049.0	9	No load	1.30	−2.6	2.5
SCUDDER QUALITY GROWTH		Growth	130.6	178	No load	1.25	6.7	0.2
SEAFIRST RETIREMENT ASSET ALLOCATION		Asset allocation	106.8	124	No load	0.95	7.0	3.8
SEAFIRST RETIREMENT BLUE CHIP		Growth	96.2	93	No load	0.95	7.4	1.9
SECURITY ACTION		Growth	336.5	8	8.50	0.78	5.3	0.7
SECURITY EQUITY	▲	Growth	344.9	5	5.75	1.06	10.7	0.8
SECURITY INVESTMENT	▲	Balanced	77.5	−4	5.75	1.26	4.8	4.2
SECURITY ULTRA		Maximum growth	68.5	−1	5.75	1.44	7.6	0.0
SEI INSTIT. MGD. SM CAP GROWTH A		Small company	81.0	NM	No load	NA†	32.6§	
SELECTED AMERICAN SHARES	AVG	Growth/income	581.9	−18	No load	1.19†	5.8	1.0
SELECTED SPECIAL SHARES	AVG	Small company	57.5	−5	No load	1.39†	8.4	0.6
SELIGMAN CAPITAL	AVG	Maximum growth	198.1	15	4.75	1.01†	11.5	0.0
SELIGMAN COMMON STOCK	AVG	Growth/income	514.1	4	4.75	0.72†	10.8	2.9
SELIGMAN COMMUNICATIONS & INFO		Technology	57.0	14	4.75	1.69†	17.4	0.0
SELIGMAN GROWTH		Growth	614.9	3	4.75	0.76†	11.3	0.5
SELIGMAN INCOME	▲ ▲	Income	213.0	39	4.75	0.85†	17.5	6.5
SENTINEL BALANCED	▲	Balanced	125.5	27	8.50	0.79	6.2	4.6
SENTINEL COMMON STOCK	AVG	Growth/income	687.8	1	8.50	0.71	5.8	3.0
SENTINEL GROWTH		Growth	64.2	3	5.25	1.05	6.0	0.6
SENTRY	▲ ▲	Growth	72.6	13	No load	0.84	7.5	1.7
SEQUOIA	▲ ▲	Growth	1389.3	11	No load‡	1.00	9.4	1.6
SHEARSON AGGRESSIVE GROWTH		Maximum growth	180.8	16	5.00	1.05	2.0	0.0
SHEARSON APPRECIATION	▲	Growth	214.0	−88	5.00	0.80	6.2	1.4
SHEARSON DIRECTIONS VALUE		Growth	195.5	−19	5.00**	1.80†	9.4	0.4
SHEARSON FUNDAMENTAL VALUE	AVG	Growth	77.5	31	5.00	1.28	14.9	0.8
SHEARSON GLOBAL OPPORTUNITIES		World	48.4	−16	5.00	1.59	−6.3	0.0
SHEARSON GROWTH & OPPORTUNITY		Growth	130.1	−2	5.00**	2.08†	15.1	0.5
SHEARSON 1990S		Growth	43.1	−14	5.00	1.60†	−7.6	0.0
SHEARSON PREMIUM TOTAL RETURN (ww)	▲ ▲ ▲	Equity-income	781.3	57	5.00**	1.69†	12.6	7.8
SHEARSON PRINCIPAL RETURN 1996		Balanced	111.0	−6	No load‡	0.77	7.6	6.4
SHEARSON PRINCIPAL RETURN 1998		Balanced	172.8	−15	5.00‡	1.03†	6.8	4.7
SHEARSON SECTOR ANALYSIS		Growth	183.1	7	5.00**	2.10†	7.7	0.3
SHEARSON SMALL CAPITALIZATION		Small company	51.7	15	5.00	1.37	−8.3	0.0
SHEARSON SPECIAL EQUITIES		Small company	63.3	−16	5.00**	2.32†	9.1	0.0
SHEARSON STRATEGIC INVESTORS	▲ ▲	Asset allocation	281.9	20	5.00**	2.04†	6.6	2.8
SHEARSON TELECOMM. INCOME		Utilities	74.1	−11	5.00‡	0.92	11.0	3.9
SHEARSON UTILITIES		Utilities	1935.7	98	5.00**	1.57†	7.3	5.7
SIERRA EMERGING GROWTH (xx)		Small company	48.1	348	4.50	1.93†	15.4	0.0
SIERRA GROWTH & INCOME (yy)		Growth/income	101.4	69	4.50	1.50†	2.7	0.9
SIT "NEW BEGINNING" GROWTH	AVG	Small company	335.0	60	No load	0.83	−2.1	0.4
SKYLINE SPECIAL EQUITIES	▲ ▲ ▲	Small company	168.3	350	No load‡	1.53	42.4	0.0
SMALLCAP WORLD		World	1481.9	10	5.75	1.21†	6.7	0.7
SMITH BARNEY EQUITY		Growth	85.7	−2	4.50	0.99†	0.8	1.8
SMITH BARNEY INCOME & GROWTH A	AVG	Growth/income	572.9	−2	4.50	0.97†	5.4	4.0
SMITH BARNEY INTL. EQUITY		Foreign	122.5	172	4.50	1.73†	0.5	0.2
SMITH BARNEY UTILITY A		Utilities	124.4	33	4.50	1.14†	7.4	6.0
SOGEN INTERNATIONAL	▲ ▲	Asset allocation	531.3	70	3.75	1.37†	8.4	3.8
SOUTHEASTERN ASSET MGMT. VALUE	▲ ▲	Growth	243.7	37	No load	1.29	20.5	0.4
SOUTHEASTERN ASSET SMALL-CAP		Small company	62.2	3	No load	1.42	6.8	0.0
STAGECOACH ASSET ALLOCATION (zz)	▲ ▲	Asset allocation	542.4	48	4.50	0.96†	5.7	3.7
STAGECOACH CORPORATE STOCK (aaa)	AVG	Growth/income	230.4	12	No load	0.97†	6.1	1.5
STAGECOACH GROWTH & INCOME (bbb)		Growth/income	44.9	335	4.50	0.25†	13.4	1.9

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not m (ww) Formerly Shearson Lehman Bros. Option-Inc. Port. (xx) Formerly GW Equity Opportunity Fund (yy) Formerly GW Growth & Income Fund (zz) Formerly Wells Fargo Inv. Trust Asset Allocation (aaa) Formerly We Inv. Trust Corporate Stock (bbb) Formerly Wells Fargo Inv. Trust Select Stock

SCOREBOARD

EQUITY FUNDS

RESULTS		TREND	PORTFOLIO DATA					RISK	TELEPHONE	
IN'L TOTAL RET. (%)		BW 10-YEAR	TURNOVER	% CASH	P/E	LARGEST HOLDING			TOLL FREE	IN-STATE
5 YEARS	10 YEARS	ANALYSIS			RATIO	COMPANY	% ASSETS		(800)	
13.3	15.6		Very low	7	13.6	Chubb	13	Average	725-6666	
14.2			Average	5	22.5	American International Grp.	7	Very low	422-7273	NY 212-903-1200
not rated				1	22.2	Exxon	2		526-8600	
17.1	15.7		High	5	21.7	Time Warner	4	High	225-2470	MA 617-439-4640
18.5	12.2		Average	4	27.8	Cabletron Systems	4	High	225-2470	MA 617-439-4640
13.4			Average	7	20.0	Comerica	3	Low	225-2470	MA 617-439-4640
not rated			Low	7	25.9	Blenheim Exhibition Group	3		225-2470	MA 617-439-4640
14.2			Low	5	19.3	Philip Morris	2	Low	225-2470	MA 617-439-4640
8.4	15.9		Average	4	20.4	Philippine Long Distance Tel	1	High	225-2470	MA 617-439-4640
not rated			Very low	2	25.7	United Healthcare	5		225-2470	MA 617-439-4640
			Very low	3	19.7	IBM	3		323-9919	WA 206-358-6234
			Average	0	19.7	IBM	6		323-9919	WA 206-358-6234
11.7	10.5		High	7	21.8	Southwestern Bell	2	High	888-2461	KS 913-295-3127
17.3	14.8		High	7	18.9	FNMA	4	Average	888-2461	KS 913-295-3127
10.6	9.0		Average	1	21.7	Philip Morris	6	Very low	888-2461	KS 913-295-3127
11.4	7.9		Very high	2	22.1	Zila	3	Very high	888-2461	KS 913-295-3127
not rated				11	48.1	Cisco Systems	4		342-5734	PA 215-254-1000
16.9	16.9		Low	9	21.2	RJR Nabisco	5	Average	426-6562	
14.3	12.2		Average	9	21.7	Hillenbrand Industries	6	Average	426-6562	
18.9	14.1		Average	10	28.3	Circus Circus Enterprises	9	High	221-2783	NY 212-488-0213
14.1	14.9		Average	3	21.2	General Electric	2	Average	221-2783	NY 212-488-0213
17.7			High	1	34.3	Microsoft	5	Very high	221-2783	NY 212-488-0213
16.0	13.2		Low	3	27.2	PepsiCo	7	Average	221-2783	NY 212-488-0213
12.3	12.2		Average	5	17.0	GTE	2	Very low	221-2783	NY 212-488-0213
11.8	13.4		Average	12	20.9	Philip Morris	1	Very low	282-3863	VT 802-229-3900
14.2	15.5		Very low	2	21.2	Philip Morris	3	Low	282-3863	VT 802-229-3900
12.2	13.2		Low	7	25.4	Automatic Data Processing	3	Average	282-3863	VT 802-229-3900
16.1	12.5		Very low	34	22.2	Philip Morris	6	Low	533-7827	
15.9	17.2		Low	26	22.6	FHLMC	20	Low		NY 212-245-4500
16.1			Very low	5	25.0	Forest Laboratories Cl A	6	Very high	451-2010	NY 212-464-8068
14.6	15.6		Low	2	22.8	Du Pont	2	Low	451-2010	NY 212-464-8068
11.3			Average	2	20.4	Intel	4	Average	451-2010	NY 212-464-8068
14.7	12.8		High	30	25.3	BankAmerica	4	Average	451-2010	NY 212-464-8068
3.8			Low	15	21.2	Incom	3	Average	451-2010	NY 212-464-8068
12.1			Low	5	16.1	Chubb	11	Average	451-2010	NY 212-464-8068
not rated			Very low	0	23.5	Gensia Pharmaceuticals	9		451-2010	NY 212-464-8068
17.0			Average	11	15.7	FNMA	5	Low	451-2010	NY 212-464-8068
			Low	58	24.5	PepsiCo	2		451-2010	NY 212-464-8068
not rated				61	21.4	Johnson & Johnson	1		451-2010	NY 212-464-8068
6.9			Very high	0	24.6	Philip Morris	5	High	451-2010	NY 212-464-8068
13.4			Average	3	20.6	Chiron	7	Very high	451-2010	NY 212-464-8068
9.7	8.2		Very high	5	26.2	Marvel Entertainment Group	8	Very high	451-2010	NY 212-464-8068
13.8			Average	12	17.8	Ciba-Geigy	2	Low	451-2010	NY 212-464-8068
15.2			Low	4	17.0	Bell Atlantic	19	Average		MA 617-573-9410
			Very low	15	15.3	SCE	2		451-2010	NY 212-464-8068
not rated			Average	9	25.8	Granite Construction	2		222-5852	
			Low	2	20.3	Merck	3		222-5852	
18.7	17.1		Low	11	25.4	Novell	3	High	332-5580	MN 612-334-5888
25.1			High	11	17.0	Allied Group	3	Average	458-5222	IL 312-670-6035
not rated			Low	18	28.4	Liberty Media Cl A	2		421-0180	CA 213-486-9200
10.3	12.5		Average	1	22.9	Federated Department Stores	4	Average	544-7835	NY 212-698-5349
12.0	13.0		Average	4	22.2	Exxon	5	Low	544-7835	NY 212-698-5349
12.6			Average	4	22.4	Telefonos de Mexico Cl L	2	High	544-7835	NY 212-698-5349
not rated			Average	2	15.8	New York State Electric/Gas	3		544-7835	NY 212-698-5349
11.1	16.5		Low	29	21.4	Bank For Intl Settlement	2	Very low	334-2143	NY 212-399-1141
18.5			Average	5	27.5	General Cinema	8	Average	445-9469	TN 901-761-2474
			Average	2	26.8	AH Belo Cl A	9		445-9469	TN 901-761-2474
11.3			Low	2	21.8	Exxon	1	Very low	222-8222	
14.4			Very low	1	21.8	Exxon	3	Average	222-8222	
not rated			Low	6	19.6	SLMA	3		222-8222	

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS	
			ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	1992 TOTAL RET. (%)	YIELD
STATE BOND COMMON STOCK	AVG	Growth	44.9	7	4.75	1.22†	0.7	1.1
STATE STREET INVESTMENT	AVG	Growth/income	700.5	9	4.50	0.50	6.3	1.7
STEINROE CAPITAL OPPORTUNITIES		Maximum growth	129.9	−15	No load	1.06	2.4	0.3
STEINROE PRIME EQUITIES		Growth/income	77.1	23	No load	0.97	10.0	1.2
STEINROE SPECIAL		Growth	718.3	22	No load	0.99	14.0	0.8
STEINROE STOCK		Growth	426.0	24	No load	0.92	8.2	0.6
STEINROE TOTAL RETURN		Equity-income	180.9	16	No load	0.85	7.9	4.8
STRATTON MONTHLY DIVIDEND SHARES		Equity-income	88.5	105	No load	1.14	10.4	6.7
STRONG COMMON STOCK		Growth	179.1	269	No load	1.50	20.8	0.0
STRONG DISCOVERY		Maximum growth	193.3	19	No load	1.40	1.9	5.5
STRONG INVESTMENT		Balanced	208.4	−3	No load	1.20	3.2	4.5
STRONG OPPORTUNITY	AVG	Growth	193.2	21	No load	1.60	17.4	0.2
STRONG TOTAL RETURN		Growth/income	587.9	−15	No load	1.30	0.5	0.9
SUNAMERICA BALANCED ASSETS	AVG	Balanced	88.5	−4	5.00**	1.93†	5.5	1.9
SUNAMERICA CAPITAL APPRECIATION		Growth	83.2	−22	5.00**	2.59†	8.5	0.0
TEMPLETON DEVELOPING MARKETS		Foreign	179.7	706	5.75	2.25†	−9.7	0.8
TEMPLETON FOREIGN	AVG	Foreign	1709.2	31	5.75	0.94	0.1	2.6
TEMPLETON GLOBAL OPPORTUNITIES		World	248.3	23	5.75	1.64†	6.9	1.2
TEMPLETON GROWTH	AVG	World	3347.2	9	5.75	0.88	4.2	2.3
TEMPLETON SMALLER COMPANIES GROWTH		World	936.5	3	5.75	1.33	3.7	2.0
TEMPLETON VALUE		World	97.6	−26	No load	1.27	−3.5	1.7
TEMPLETON WORLD		World	3981.7	−6	5.75	0.86	3.3	2.7
THOMSON EQUITY-INCOME B (ccc)		Equity-income	50.5	119	1.00*	2.10†	7.8	2.6
THOMSON GROWTH B		Growth	942.1	41	1.00*	1.90†	2.1	0.0
THOMSON OPPORTUNITY B		Maximum growth	354.6	345	1.00*‡	2.00†	28.5	0.0
TNE BALANCED (ddd)		Balanced	82.0	32	5.75	1.47†	13.9	2.7
TNE GROWTH (eee)		Growth	1102.3	31	6.50 ‡	1.14†	−6.6	0.8
TNE GROWTH OPPORTUNITIES (fff)	AVG	Growth/income	78.8	21	5.75	1.20†	9.3	1.8
TNE RETIREMENT EQUITY (ggg)		Growth/income	150.5	7	5.75	1.31†	16.6	1.2
TOWER CAPITAL APPRECIATION		Growth/income	126.1	42	4.50	0.74†	0.2	1.9
TRANSAMERICA CAPITAL APPRECIATION		Maximum growth	94.7	6	4.75	1.68†	5.4	0.0
TRANSAMERICA GROWTH & INCOME A	AVG	Growth/income	93.8	13	4.75	1.38†	6.0	3.2
TRANSAMERICA SPECIAL BLUE CHIP	AVG	Growth/income	43.8	41	6.00**	2.76†	3.1	0.0
TRANSAMERICA SPECIAL EMER. GRTH. B	AVG	Small company	107.0	62	6.00**	2.85†	12.1	0.0
TWENTIETH CENTURY BALANCED INVESTORS		Balanced	700.5	99	No load	1.00	−6.1	2.3
TWENTIETH CENTURY GIFTRUST INVESTORS		Small company	97.3	52	No load	1.00	18.0	0.0
TWENTIETH CENTURY GROWTH INVESTORS		Growth	4853.4	25	No load	1.00	−4.3	0.0
TWENTIETH CENTURY HERITAGE INVESTORS	AVG	Growth	425.5	46	No load	1.00	10.1	0.9
TWENTIETH CENTURY INTL. EQUITY		Foreign	222.8	356	No load	1.91	4.8	3.4
TWENTIETH CENTURY SELECT INVESTORS		Growth	4691.9	1	No load	1.00	−4.4	1.2
TWENTIETH CENTURY ULTRA INVESTORS	AVG	Small company	5299.3	80	No load	1.00	1.3	0.0
TWENTIETH CENTURY VISTA INVESTORS		Small company	935.6	22	No load	1.00	−2.1	0.0
UMB STOCK		Growth	85.7	31	No load	0.86	7.1	2.4
UNITED ACCUMULATIVE		Growth	993.0	10	8.50	0.63	14.2	1.9
UNITED CONTINENTAL INCOME	AVG	Balanced	370.4	10	8.50	0.80	10.5	4.2
UNITED INCOME	AVG	Equity-income	2538.8	18	8.50	0.65	12.0	2.0
UNITED INTERNATIONAL GROWTH		Foreign	308.6	4	8.50	1.18	−1.1	1.1
UNITED NEW CONCEPTS		Small company	182.6	29	8.50	1.23	4.5	0.1
UNITED RETIREMENT SHARES		Growth/income	313.7	35	8.50	0.82	12.8	2.9
UNITED SCIENCE & ENERGY		Technology	429.0	6	8.50	0.87	−4.0	0.2
UNITED SERVICES GOLD SHARES		Precious metals	128.7	−38	No load	1.54	−50.8	3.8
UNITED SERVICES WORLD GOLD		Precious metals	61.7	8	0.10*	2.20	−4.7	0.0
UNITED VANGUARD		Growth	912.3	0	8.50	0.96	3.4	0.7
USAA INVESTMENT BALANCED		Balanced	91.2	48	No load	0.92	4.9	3.9
USAA INVESTMENT CORNERSTONE	AVG	Balanced	578.1	−4	No load	1.18	6.4	3.2
USAA INVESTMENT GOLD		Precious metals	109.1	−8	No load	1.43	−7.9	0.7
USAA INVESTMENT INTERNATIONAL		Foreign	43.2	37	No load	1.69	−0.2	1.1
USAA MUTUAL AGGRESSIVE GROWTH		Maximum growth	290.0	7	No load	0.82	−8.5	0.0
USAA MUTUAL GROWTH	AVG	Growth	503.4	38	No load	1.07	10.0	1.7
USAA MUTUAL INCOME		Income	1452.1	45	No load	0.42	8.4	7.5

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available NM = Not (ccc) Formerly Thomson Convertible Securities Fund B (ddd) Formerly New England Balanced Fund (eee) Formerly New England Growth Fund (fff) Formerly Invest. Tr. of Boston Growth Opp. Port. (ggg) Formerly Ne Retirement Equity Fund

COREBOARD

EQUITY FUNDS

RESULTS ANN'L TOTAL RET. (%) 5 YEARS	10 YEARS	TREND BW 10-YEAR ANALYSIS	PORTFOLIO DATA TURNOVER	% CASH	P/E RATIO	LARGEST HOLDING COMPANY	% ASSETS	RISK	TELEPHONE TOLL FREE (800)	IN-STATE
16.3	12.8		Very low	14	20.9	Bristol-Myers Squibb	7	Average	333-3952	MN 612-835-0097
14.5	14.0		Low	−1	21.4	Abbott Laboratories	5	Average	882-0052	
9.2	8.7		Average	5	28.7	Mattel	4	Very high	338-2550	IL 312-368-7800
15.4			Average	4	21.5	Saint Paul Bancorp	2	Low	338-2550	IL 312-368-7800
19.0	17.2		Average	13	20.3	MGIC Investment	3	Average	338-2550	IL 312-368-7800
16.8	13.2		Low	9	26.8	Home Depot	5	Average	338-2550	IL 312-368-7800
12.3	12.2		Average	7	17.8	General Electric	2	Low	338-2550	IL 312-368-7800
13.3	13.4		Low	5	15.9	Rochester Gas & Electric	5	Very low	634-5726	PA 215-941-0255
			Very high	14	19.7	Newbridge Networks	2		368-1030	WI 414-359-1400
20.9			Very high	6	24.7	Canandaigua Wine Cl A	4	Average	368-1030	WI 414-359-1400
9.0	13.1		Very high	8	20.9	Avon Products	3	Very low	368-1030	WI 414-359-1400
13.6			Very high	8	20.8	Compaq Computer	2	Low	368-1030	WI 414-359-1400
8.2	13.9		Very high	7	20.7	General Motors	5	Low	368-1030	WI 414-359-1400
10.6			High	5	22.1	Nike Cl B	3	Low	858-8850	NY 212-551-5125
9.0			Average	1	18.0	Primerica	6	High	858-8850	NY 212-551-5125
not rated				15	12.1	Philippine Long Distance Tel	3		237-0738	FL 813-823-8712
12.8	17.5		Low	16	16.7	British Airways	2	Low	237-0738	FL 813-823-8712
not rated			Low	1	21.7	News	3		237-0738	FL 813-823-8712
13.5	15.1		Low	13	19.6	Total B	2	Low	237-0738	FL 813-823-8712
13.1	13.5		Average	19	20.7	Sime Darby (hk)	2	Average	237-0738	FL 813-823-8712
			Average	5	21.8	Ascom Holding	3		237-0738	FL 813-823-8712
10.6	14.0		Low	5	19.3	Merrill Lynch	2	Average	237-0738	FL 813-823-8712
			High	13	27.5	Cyprus Minerals	4		227-7337	CT 203-352-4900
16.9			High	9	29.2	Wal-Mart Stores	4	Average	227-7337	CT 203-352-4900
24.4			High	16	33.0	Adaptec	5	High	227-7337	CT 203-352-4900
9.8	11.1		Average	1	20.8	General Motors	2	Average	343-7104	MA 617-267-6600
13.8	14.3		Very high	0	22.0	Philip Morris	6	High	343-7104	MA 617-267-6600
13.9	11.8		Very low	4	21.6	Exxon	3	Average	343-7104	MA 617-578-1400
9.0	12.9		Average	1	22.3	General Motors	3	High	343-7104	MA 617-267-6600
			High	1	17.7	Exxon	3		999-0124	LA 504-587-2708
14.6			High	2	31.8	Vital Signs	5	Very high	343-6840	TX 713-751-2400
12.7	12.2		Average	18	19.1	Montana Power	4	Low	343-6840	TX 713-751-2400
10.8			Average	17	22.4	General Re	4	Low	343-6840	TX 713-751-2400
22.5			Average	7	29.0	Read-Rite	1	High	343-6840	TX 713-751-2400
			High	4	30.2	Home Depot	4		345-2021	MO 816-531-5575
24 8			High	10	32.7	Cerner	4	Very high	345-2021	MO 816-531-5575
18.0	16.4		Average	10	29.6	Novell	8	High	345-2021	MO 816-531-5575
16.4			High	10	23.1	Xerox	4	High	345-2021	MO 816-531-5575
not rated			High	3	13.9	Gist-Brocades	3		345-2021	MO 816-531-5575
13.0	14.2		High	1	23.5	Wal-Mart Stores	5	Average	345-2021	MO 816-531-5575
26.2	17.2		Average	6	39.2	Cisco Systems	5	Very high	345-2021	MO 816-531-5575
17.4			High	10	32.5	Southwest Airlines	3	Very high	345-2021	MO 816-531-5575
12.1	13.0		Very low	19	23.0	Emerson Electric	2	Low	422-2766	MO 816-471-5200
13.6	14.8		Very high	21	25.8	General Motors Cl E	3	Average	366-5465	KS 913-236-2000
12 6	14.1		Very high	6	23.4	Warner-Lambert	4	Low	366-5465	KS 913-236-2000
16.0	17.8		Low	8	22.6	ITT	2	Average	366-5465	KS 913-236-2000
4.9	12.8		High	3	9.0	Roche Hldngs Genusscheine	5	High	366-5465	KS 913-236-2000
17.7			Average	33	34.9	United Healthcare	6	High	366-5465	KS 913-236-2000
15.2	12.5		Average	17	23.6	Eaton	2	Very low	366-5465	KS 913-236-2000
15.4	14.6		Average	14	34.7	Cisco Systems	4	High	366-5465	KS 913-236-2000
−22.0	−12.2		Low	16	11.4	Driefontein Consolid Mines	10	Very high	873-8637	TX 210-308-1222
−8.9			Average	8	32.6	Continental Homes	2	Very high	873-8637	TX 210-308-1222
11.3	12.2		High	17	28.5	Triton Energy	5	Average	366-5465	KS 913-236-2000
			High	16	21.1	American Brands	2		382-8722	
8.2			Low	6	25.4	Weingarten Realty	2	Low	382-8722	
−8.8			Low	12	31.1	American Barrick Resources	10	Very high	382-8722	
			Low	5	14.7	Nestle	3		382-8722	
13.0	9.2		Average	7	28.0	Brinker International	2	Very high	382-8722	
13.8	11.0		Average	2	21.9	Philip Morris	3	Average	382-8722	
12.2	12.1		Low	0	13.9	Public Service Enterprise	2	Very low	382-8722	

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

MUTUAL FUN

FUND	RATING	OBJECTIVE	SIZE		FEES		CURRENT RESULTS		
			ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	1992 TOTAL RET. (%)	YIELD	R/
USAA MUTUAL INCOME STOCK	▲ ▲	Equity-income	592.4	143	No load	0.74	7.8	5.2	
UST MASTER EQUITY	AVG	Growth	96.5	56	4.50	1.15	16.6	0.5	
VALUE LINE	▲	Growth	327.0	2	No load	0.71	4.7	0.8	
VALUE LINE INCOME	▲ ▲	Income	163.3	−5	No load	0.88	1.8	3.6	
VALUE LINE LEV. GROWTH INV.	▼	Maximum growth	290.8	−16	No load	0.96	−2.5	0.6	
VALUE LINE SPECIAL SITUATIONS	▼ ▼	Maximum growth	101.0	−22	No load	1.10	−3.5	0.0	
VAN ECK GOLD/RESOURCES	▼ ▼ ▼	Precious metals	114.3	−16	6.75	1.62†	−4.5	0.1	
VAN ECK INTERNATIONAL INVESTORS	▼ ▼ ▼	Precious metals	360.2	−37	8.50	1.17	−29.1	1.5	
VANGUARD ASSET ALLOCATION		Asset allocation	585.2	72	No load	0.52	7.5	4.3	
VANGUARD EQUITY-INCOME		Equity-income	835.8	47	No load	0.44	9.2	4.6	
VANGUARD EXPLORER	AVG	Small company	620.4	44	No load	0.69	13.0	0.3	
VANGUARD INDEX 500	▲	Growth/income	6517.7	50	No load	0.20	7.4	2.7	
VANGUARD INDEX EXTENDED MARKET	AVG	Small company	583.5	57	No load	0.21	12.5	1.4	
VANGUARD INDEX TOTAL STOCK MKT.		Growth/income	207.5	NM	No load	0.25	10.6§		
VANGUARD INTL EQUITY INDEX EUROPEAN		Europe	256.4	59	No load	0.31	−3.3	2.8	
VANGUARD INTL EQUITY INDEX PACIFIC		Pacific	207.0	145	No load	0.30	−18.2	0.7	
VANGUARD PREFERRED STOCK	▲ ▲ ▲	Income	185.8	85	No load	0.58	8.4	8.0	
VANGUARD QUANTITATIVE	▲	Growth/income	415.5	24	No load	0.43	7.0	2.6	
VANGUARD SMALL CAP. STOCK	▼ ▼	Small company	201.8	81	No load	0.18	18.2	1.3	
VANGUARD SPECIALIZED ENERGY	▼	Natural resources	155.7	34	1.00*	0.23	6.2	2.7	
VANGUARD SPEC. GOLD & PREC.	▼ ▼ ▼	Precious metals	173.9	2	1.00*	0.35	−19.4	2.5	
VANGUARD SPECIALIZED HEALTH CARE	▲ ▲ ▲	Health care	607.1	11	1.00*	0.23	−1.6	2.0	
VANGUARD SPECIALIZED TECHNOLOGY	▼ ▼	Technology	56.8	129	1.00*	0.26	13.5	0.7	
VANGUARD SPEC. UTILITIES INCOME		Utilities	312.3	NM	No load	0.35	12.2§		
VANGUARD STAR	▲ ▲	Balanced	2482.8	58	No load	NA	10.4	3.9	
VANGUARD WORLD INTL. GROWTH	▼ ▼ —	Foreign	880.1	1	No load	0.58	−5.8	2.2	
VANGUARD WORLD U. S. GROWTH	▲ ▲	Growth	1813.9	85	No load	0.49	2.8	1.2	
VANGUARD/MORGAN GROWTH	AVG	Growth	1116.3	17	No load	0.49	9.5	1.4	
VISTA CAPITAL GROWTH	▲ ▲ ▲	Growth	55.5	386	4.50	1.23†	13.0	0.2	
VISTA EQUITY		Growth	112.9	6	No load‡	0.30†	5.2	2.6	
VISTA GROWTH & INCOME	▲ ▲ ▲	Growth/income	190.2	319	4.50	1.39†	15.1	1.1	
VONTOBEL EUROPACIFIC	▼ ▼ ▼	Foreign	47.5	91	5.00	1.89	−2.4	1.1	
WARBURG PINCUS CAP. APPR. COMMON (hhh)	AVG	Growth	120.3	−2	No load	1.07	7.6	0.4	1
WARBURG PINCUS EMERGING COMMON (iii)		Small company	110.5	47	No load	1.25	12.1	0.0	
WARBURG PINCUS INTL. EQ. COMMON (jjj)		Foreign	99.5	29	No load	1.50	−4.3	0.4	
WASHINGTON MUTUAL INVESTORS	AVG	Growth/income	10100.4	23	5.75	0.74†	9.4	3.6	
WAYNE HUMMER GROWTH	▲	Growth	79.2	57	No load	1.13	10.4	1.3	
WEITZ VALUE	▲ ▲ ▲	Growth	49.5	53	No load	1.33	13.6	1.8	
WELLESLEY INCOME	▲ ▲ ▲	Income	3177.7	64	No load	0.38	8.7	6.6	
WELLINGTON	▲	Balanced	5559.2	46	No load	0.37	7.9	4.9	
WESTCORE BALANCED INVESTMENT		Balanced	45.5	NM	4.50	1.02	7.5	3.3	
WESTCORE BASIC VALUE	▼	Growth/income	92.0	−17	4.50	0.95	9.9	2.1	
WESTCORE MIDCO GROWTH	AVG	Growth	215.0	21	4.50	0.83	6.5	0.0	1
WILLIAM BLAIR GROWTH SHARES	AVG	Growth	111.1	21	No load	0.86	7.6	0.5	1
WINDSOR	▼	Growth/income	8832.6	13	No load‡	0.26	16.5	3.7	
WINDSOR II	▲	Growth/income	5407.4	49	No load	0.41	12.0	3.2	
WINTHROP FOCUS AGGRESSIVE GROWTH (kkk)	▲ ▲	Small company	44.5	38	4.00**	1.85†	19.1	0.8	
WINTHROP FOCUS GROWTH	▼	Growth	49.0	−7	4.00**	1.26†	1.9	1.0	1
WINTHROP FOCUS GROWTH & INCOME (lll)	▲	Growth/income	47.3	−3	4.00**	1.35†	5.9	2.4	
WOODWARD GROWTH/VALUE		Growth	282.2	19	4.50	0.82†	9.9	2.4	
WOODWARD INTRINSIC VALUE		Growth	100.7	32	4.50	0.87†	14.6	8.1	
WOODWARD OPPORTUNITY		Small company	160.2	49	4.50	0.90†	24.8	1.7	
WPG GROWTH	▼ ▼	Small company	208.4	27	No load	0.95	6.2	1.2	
WPG GROWTH & INCOME	▼	Growth/income	49.3	17	No load	1.31	13.8	1.8	
WPG TUDOR	▼	Growth	273.4	3	No load	1.21	5.1	0.6	1
YACKTMAN		Growth	74.7	NM	No load	NA†	4.7§		
YAMAICHI GLOBAL		World	52.3	−16	4.75	1.89†	−2.3	0.6	
ZWEIG SERIES APPRECIATION A		Small company	200.7	27	5.50	1.84†	9.5	0.3	
ZWEIG SERIES PRIORITY SELECTION LIST A	AVG	Growth	58.0	−3	5.50	1.44†	−3.4	0.5	2
ZWEIG SERIES STRATEGY A		Growth	359.0	−2	5.50	1.55†	7.6	1.5	1

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return NA = Not available NM = Not m
(hhh) Formerly Counsellors Capital Appreciation Fund (iii) Formerly Counsellors Emerging Growth Fund (jjj) Formerly Counsellors International Equity Fund (kkk) Formerly Neuwirth Fund (lll) Formerly Pine Street Fund

SCOREBOARD

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RESULTS		TREND	PORTFOLIO DATA					RISK	TELEPHONE	
'L TOTAL RET. (%)		BW 10-YEAR	TURNOVER	% CASH	P/E	LARGEST HOLDING			TOLL FREE	IN-STATE
YEARS	10 YEARS	ANALYSIS			RATIO	COMPANY	% ASSETS		(800)	
15.5			Low	2	19.2	Bristol-Myers Squibb	4	Low	382-8722	
15.9			Low	2	24.9	Oxford Health Plans	3	Average	233-1136	MA 617-451-1912
18.0	12.3		High	1	25.2	Home Depot	3	Average	223-0818	NY 212-687-3965
12.9	11.0		Average	5	15.6	AT & T	2	Very low	223-0818	NY 212-687-3965
14.6	12.1		Very high	4	20.4	Amgen	2	High	223-0818	NY 212-687-3965
9.9	5.1		Low	7	26.2	Genentech	4	High	223-0818	NY 212-687-3965
−8.8			Very low	6	31.2	American Barrick Resources	13	Very high	221-2220	NY 212-687-5201
−9.0	−0.7		Very low	0	27.1	American Barrick Resources	8	Very high	221-2220	NY 212-687-5201
			Low	2	21.9	Exxon	1		662-7447	PA 215-669-1000
			Low	5	21.3	IBM	3		662-7447	PA 215-669-1000
16.7	8.1		Average	12	24.0	Dionex	2	High	662-7447	PA 215-669-1000
15.6	15.7		Very low	0	21.8	Exxon	3	Average	662-7447	PA 215-669-1000
15.3			Very low	3	22.2	Microsoft	2	Average	662-7447	PA 215-669-1000
ot rated			Very low	2	NA	Exxon	2		662-7447	PA 215-669-1000
ot rated			Very low	0	13.2	Royal Dutch Petroleum	3		662-7447	PA 215-669-1000
ot rated			Very low	0	25.0	Toyota Motor	3		662-7447	PA 215-669-1000
12.3	12.3		Low	2	NA	FHLMC Pfd 7.9	5	Very low	662-7447	PA 215-669-1000
16.0			Average	3	17.1	General Electric	3	Average	662-7447	PA 215-669-1000
14.1	7.0		Low	4	21.2	Cullen Frost Bankers		High	662-7447	PA 215-669-1000
12.8			Low	4	28.6	Kerr-McGee	4	Average	662-7447	PA 215-669-1000
−5.5			Very low	16	24.9	Franco Nevada Mining	4	Very high	662-7447	PA 215-669-1000
23.5			Very low	2	26.1	Beckman Instruments	5	Low	662-7447	PA 215-669-1000
14.4			High	11	28.7	Sun Microsystems	4	Very high	662-7447	PA 215-669-1000
ot rated			Average	2	16.0	Nynex	4		662-7447	PA 215-669-1000
13.3			Very low	12	NA	Windsor II Fund	39	Low	662-7447	PA 215-669-1000
3.9	16.8		Average	4	27.7	Nestle	3	High	662-7447	PA 215-669-1000
18.8	15.1		Low	9	21.2	Slma	5	Average	662-7447	PA 215-669-1000
15.9	14.1		Average	8	21.1	General Electric	2	Average	662-7447	PA 215-669-1000
26.4			Average	0	26.6	Lam Research	2	Average	348-4782	
ot raied			Low	3	22.8	Exxon	3		348-4782	
32.1			High	1	19.8	AT & T	1	Low	348-4782	
3.9			Very low	16	16.3	Generale des Eaux	1	High	776-5455	
14.6			Average	4	22.6	Manpower	3	Average	888-6878	NY 212-878-0600
			High	7	29.3	Arkansas Freightways	3		888-6878	NY 212-878-0600
			Low	2	20.8	National Westminster	2		888-6878	NY 212-878-0600
14.6	16.0		Very low	4	21.4	IBM	4	Low	421-0180	DC 202-842-5665
14.7			Very low	23	22.0	Kelly Services Cl A	3	Low	621-4477	IL 312-431-1700
14.3			Low	12	20.3	Chris-Craft Industries	6	Very low	232-4161	NE 402-391-1980
13.5	14.4		Low	4	17.5	Du Pont	2	Very low	662-7447	PA 215-669-1000
12.9	14.6		Low	2	20.5	Exxon	2	Low	662-7447	PA 215-669-1000
ot rated			Low	5	NA	Royal Dutch Petroleum	3		392-2673	CO 303-623-2577
12.8			Low	3	15.5	Philip Morris	3	Average	392-2673	CO 303-623-2577
20.9			Average	5	30.2	United Healthcare	3	High	392-2673	CO 303-623-2577
16.3	13.0		Low	11	27.7	Policy Management Systems	3	Average	742-7272	IL 312-853-2424
13.4	16.3		Low	9	21.6	Citicorp	5	High	662-7447	PA 215-669-1000
15.6			Low	8	18.1	Chemical Banking	4	Low	662-7447	PA 215-669-1000
18.6	12.6		Very high	2	20.0	Wiser Oil	4	Average	225-8011	NY 212-504-4000
11.7	9.3		Average	0	28.3	American Cyanamid	7	Average	225-8011	NY 212-504-4000
13.0	12.5		Low	0	23.4	Southwestern Bell	6	Low	225-8011	NY 212-504-4000
ot rated				13	23.0	Bristol-Myers Squibb	3		688-3350	MI 313-259-0729
ot rated				4	19.5	IBM	2		688-3350	MI 313-259-0729
ot rated				6	21.0	Edison Brothers Stores	3		688-3350	MI 313-259-0729
15.1			High	5	29.4	Federal Express	3	Very high	223-3332	NY 212-908-9582
14.9	13.7		Average	6	20.5	Pfizer	3	High	223-3332	NY 212-908-9582
15.9	14.0		High	1	29.8	Merrill Lynch	3	High	223-3332	NY 212-908-9582
ot rated				39	17.1	Syntex	4		525-8258	IL 312-201-1200
			Average	4	20.2	Abbott Laboratories	2		257-0228	NY 212-466-6805
ot rated			Average	25	14.8	News			444-2706	NY 212-635-9800
14.0			Very high	40	25.2	Philip Morris	2	Average	444-2706	NY 212-635-9800
			High	27	14.0	Primerica	1		444-2706	NY 212-635-9800

See pages 72-73 for an explanation of BW Rating, Trend and other terms

DATA: MORNINGSTAR INC.

INCOME

NOTES FROM THE UNDERGROUND ECONOMY

Its growth is providing lots of jobs, yet it's robbing the Treasury of billions

The underground economy. It has a sinister ring—suggestive of dope deals struck in alleys and wads of dollar bills hastily exchanged. But the underground economy is a lot more—and usually a lot more innocent—than all that. If you paid the plumber with a check made out to "cash," if you handed the gardener a $50 bill for some yard work, if you so much as purchased a cheap umbrella from an itinerant vendor, you have participated in the underground economy. So, too, has everyone who sold you the service or the item.

Also known as the informal, the unofficial, the subterranean, and the off-the-books economy, the underground economy—involving only legal activity—today produces annual income exceeding $500 billion, more than double its level a decade ago (chart, page 100), according to calculations made in a Labor Dept. study using Internal Revenue Service data. That figure puts the underground economy at one-tenth the size of the reported economy, although some economists believe its size may be closer to 15%, or $750 billion. Criminal activity, such as drug dealing and prostitution, would add an additional $200 billion or so. But it's the everyday busines manufacturing, serving, buying, and ing—with hardly a whisper to the collectors—that makes up the bul the underground economy.

> The IRS says the 1992 'tax gap' could be $127 billion—enough to put a nice dent in the deficit

The recent flap over Attorney Gen designate Zoë Baird's hiring of ill aliens to work off the books has sh harsh light on the underground econ For the economy at large, the long-t consequences of escalating off-the-bo activity have been mixed. The un ground economy provides jobs anc comes, and thus acts as a critical bu during downturns. "A slack economy ically gives rise to a large, informal omy, where prices are cheaper," sys Edgar L. Feige, economist at the versity of Wisconsin at Madison.

Yet off-the-books activity robs nat

d local treasuries of much-needed lollars. The IRS says the "tax gap," e amount of tax revenue not collect- ecause of underreporting of income overstatement of deductions, could s high as $127 billion in 1992— gh to put a nice dent in the $300 n federal budget deficit. States and , too, suffer sharp revenue losses small businesses consistently un- port sales or individuals underre- income.

'ING ALIVE.' Now, with the national omy beginning to improve, some le who have been working off the s may shift back to jobs that with- taxes on income. But other factors be working to propel the growth of nderground economy: In the 1980s, ased immigration, worsening income uality, and a growing aversion to g taxes all gave informal activity a ush. And if President Clinton rais- xes on the middle class, that could e more people to underreport in- —especially if the perception grows, has in recent years, that more peo- re cheating the system. If you're ng on the highway at 55 mph and yone else seems to be driving at ph, eventually you're driving at 65 too, observes Bruce R. Wiegand, logist at the University of Wisconsin hitewater.

anges in attitudes reinforce the ef- f other factors. In metropolitan ar- businesses whose income is rela- easy to hide from tax collectors burgeoned in the wake of massive tural changes, observes Saskia Sas- professor of urban planning at Co- ia University. Service industries aced unionized manufacturing in the s and 1980s, driving a wedge be- n rich and poor in the cities. Soon, vell-off were demanding customized s and services, from take-out food nny care. Much of it was affordable available only because low-income kers, some of them immigrants, ed into the breach—eager to de- the dinners, rock the cradle, and paying taxes. "On both the top he bottom end of the income scales, 's been pressure to increase use of nformal economy," says Sassen.

e biggest offenders by far are sole rietorships—the corner stores, delis, mployed consultants, and the like— account for about $205 billion in ported income yearly, according to Labor Dept. study. New York City nce Dept. Commissioner Carol eireacain muses that some of the erous storefront manicurist salons ew York, staffed almost exclusively reigners, may well be underreport- heir income. So, too, may the com- r expert who hires out on a free- basis as a tutor. Also shaving

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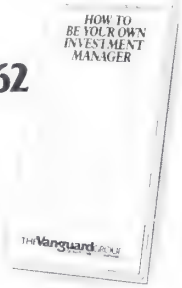

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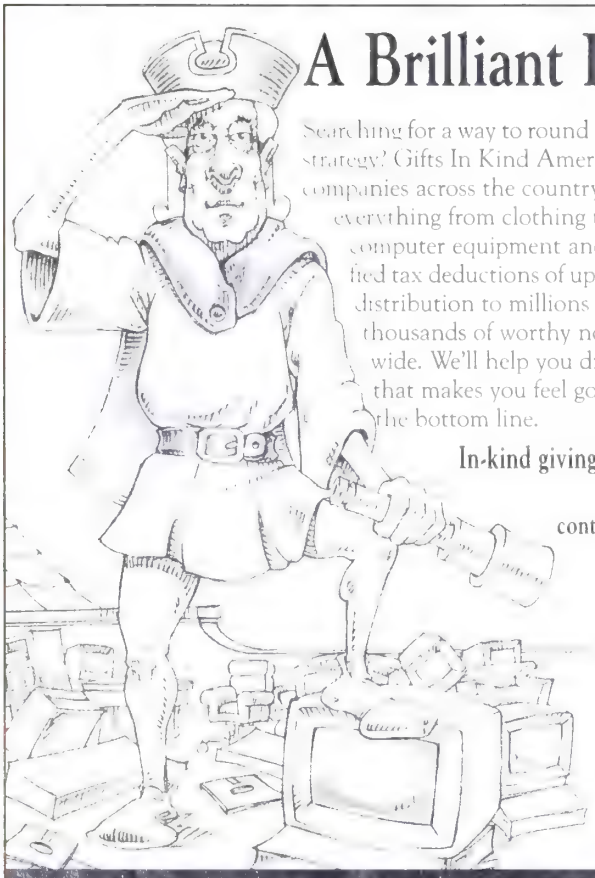

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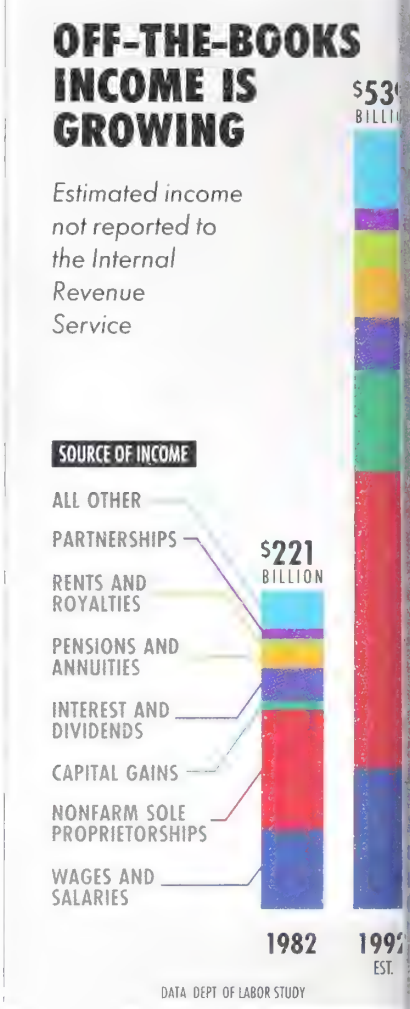
income may be the self-employed a countant who once held a middle-a agement position at a large comp And what about the 26-year-old De self-employed commercial artist who pay taxes on $6,000 in income this ye Dubbing herself and friends mem of the "underground generation," figures that the small change she p ets for odd jobs and the bartering does with friends are just part "staying alive tactic."

Researchers say there are many sons why people don't pay taxes—e by underreporting income or overde



ing expenses—and those reasons ar always economic ones. John S. Carro social psychologist at Massachusetts stitute of Technology's Sloan Schoo Management, studied nearly 100 vo teers during the January-to-April, 19 tax season, interviewing them intens ly and having them keep a daily di as they prepared their 1987 tax retu Carroll found that the most common son for noncompliance was the comp ity of the tax code and the tax fo themselves.

any people simply took shortcuts, to save money but to complete their ıs, and then figured out offsetting s to end up paying what they be- ɔd was the correct amount that they l. Fully 42 out of 93 people admitted ɜrreporting or overdeducting for the tax year, but those who believed had paid less than the correct unt were only 14 out of 93.

ɜople also underreport income and t on their taxes because they think can get away with it. Nothing ıt enforcement has led them to be- otherwise. Steven M. Sheffrin, an omist at the University of California)avis, says that taxpayer surveys nissioned by the IRS yield one fasci- ıg and, for the IRS, troubling obser- ɔn: If a person knew someone who being audited by the IRS, that per- was actually more likely to cheat, ·ing the odds were now in his or favor. "What you hear about what r people are doing can influence you do," says Joel B. Slemrod, ed- of a new book called *Why People Taxes* and the director of the Office ıx Policy Research at the University ichigan.

ITIVE GAP. Closing the tax gap is an ·rstandable obsession for tax author- at all levels. The six locales with reputation for poorest compliance, in personal and corporate tax re- s, are California, South Florida, New City, Chicago, Anchorage, and Las ıs. But tax collectors all over the try figure they're losing billions to ınderground economy. Billy Hamil- deputy comptroller for public ac- ts in Texas, estimates the informal omy there amounted to $50 billion, .ore than 10% of the state's output, 92. Now, the state is busy trying to down on offenders to help close a tfall of more than $3 billion in reve- estimated for the next budget peri- In Massachusetts, tax collectors airports and marinas to make sure planes and boats are registered and taxes are paid up. In some cases, rcement is complicated by the na- of the business. What assets could ɜized, New York's O'Cleireacain won- , from a sidewalk vendor.

ıll, tax authorities in the U. S. ld take heart. Tax evasion is far prevalent in most other industrial- nations and is practically a way of n most developing countries. High rates have created a lively off-the- s economy in the Netherlands. And there's Italy, where about 40% of ɔopulation, by some accounts, regu- evades taxes. In more ways than the U. S. is a long way from *la vita.*

By Karen Pennar and Christopher ell in New York, with bureau reports

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A QUESTION OF MATURITY

Switching from long- to short-term debt is no deficit panacea

It is, say advocates, a veritable financial elixir. It would save billions of dollars in government interest costs, let consumers obtain cheaper mortgages, induce corporations to make longer-term investments, and give a big boost to the economic recovery.

For years, economists and others have argued that reducing the amount of long-term—typically 30-year—bonds that the U. S. Treasury sells to finance its debt just might work such wonders. Short-term bonds carry lower coupons. Now, the Clinton Administration is thinking of joining the party. On Feb. 3, Deborah J. Danker, Acting Assistant Treasury Secretary for domestic finance, said Treasury would cut its quarterly 30-year bond auction by $1 billion and its 10-year bond auction by $500 million, while keeping its short-term borrowing constant. The Administration, she added, is conducting "a thorough review" of the proposal and hopes to complete its study by May.

Unfortunately, though, the idea has as many pitfalls as virtues. Lower long-term rates could eventually hurt investors dependent on yield from long-term securities, especially pension funds and insurers. And likely additional short-term borrowing by the Treasury could drive up short-term rates, which would reduce, if not eliminate, its interest savings. "It would be bad policy to withdraw completely from the long end of the market. There is a natural constituency for long bonds—insurance companies and pension funds," says Scott E. Pardee, chairman of Yamaichi International (America) Inc. Moreover, he says, "if rates back up later on, then the U. S. taxpayer gets hurt."

QUICK LIFT? Reducing debt maturity certainly has lots of superficial allure. With 30-year bonds yielding roughly 7.2%, over four percentage points more than short-term government debt, a shift to short-term borrowing would immediately reduce Treasury's costs and reduce long-term rates. The Democratic Study Group, an organization of moderate to liberal members of Congress, calculates that issuing only three-month Treasury bills from August, 1991, to July, 1992, would have saved the Treasury $5.3 billion during that period.

Issuing fewer long-term bonds, advocates claim, could also spur economic activity for a while. Lower rates would encourage companies to borrow for long-term investments in factories and research and development, stimulating economic growth. Banks, insurance companies, and pension funds would also come out winners over the short term, because prices on their holdings of long-term bonds would rise as these securities became more scarce. And the costs of fixed-rate mortgages should fall, revitalizing the housing industry.

Down the road, though, shorter maturities could have many costs. Take pension funds, which own about 40% of all long-term Treasury bonds. They need to invest long-term to provide a guaranteed return for future retirees. Edward V. Regan, New York State comptroller and head of the state's $54 billion pension fund, says nearly half the fund's a are invested in 10-year and longer Treasuries. Lower long-term y would force pension funds to accep of two unpleasant choices: buying long-term bonds to get the same int income, or trying for higher retur buying riskier securities.

Banks could also suffer. They been generating record earnings by ing long-term securities with yields above their short-term borrowing But that would be hard to do if term yields get closer to short rates. Such a change "isn't goo banks unless there's loan demand i offing, and we don't have a line in of the bank to get money," says a s official at a large regional bank.

Lots of would-be homebuyers w get hurt if short-term rates rise. Ac ing to the Mortgage Bankers A nearly a fourth of all mortgages is last year, even 30-year loans, had ac able rates pegged to short-term int rates, often the one-year Treasury

The prospect of higher short raises questions about how much

NO FREE LUNCH

The impact of selling fewer long-term Treasuries would be a mixed blessing, especially over time

[illegible]	LATER
▶ Treasury would cut costs since short-term bonds have lower interest rates	A rise in short-term interest rates could eventually boost Treasury's costs
▶ Home buyers would find cheaper fixed-rate mortgages	Adjustable-rate mortgages could get more expensive if short rates rise
▶ Pension funds, banks, and insurers would book immediate investment profits	Yields on future long-term investments would fall, cutting into returns

DATA: BUSINESS WEEK

would save by changing how it bor-
. Neal M. Soss, First Boston Corp.'s
economist, says if three-month bills
een issued in place of the $41 bil-
in 30-year bonds sold in 1992, an
ase of just one-fifth of a percentage
in the three-month rate would have
l out interest savings.
nis Woodfield, director of invest-
s for Johnson & Johnson, observes
"in the 1970s, the Treasury tried to
similar thing. It had a brief impact
short period of time, and then ev-
dy forgot about it." Michael Ba-
, a managing director of Smith Bar-
Harris Upham & Co. and a former
r Treasury official, says it's impos-
to predict the likely savings.
nsidering the downside, Treasury
ably won't move precipitously. "It's
to take us a while to reach a deci-
' says Deputy Treasury Secretary
r C. Altman. Like many of the Clin-
Administration's other proposals,
sixing the 30-year bond is a far cry
a quick and easy fix.

Kelley Holland in New York and Foust in Washington

CAN SHEARSON FIND A MR. FIX-IT?

Its problems: Internal schisms, a credit-rating review, and no CEO

Poor management is no stranger to Wall Street. But the problems at Shearson Lehman Brothers Inc. stand out. Shearson is the second largest retail brokerage and a top-tier investment bank. But for years it has been an uneasy amalgam of disparate parts. Under a succession of flawed leaders, notably Peter A. Cohen and Howard L. Clark Jr., Shearson has been battered by an eroding capital base, political turmoil, bloated costs, and laggard earnings. Even James D. Robinson III, former chairman and CEO of American Express Co., which owns Shearson, owes his recent resignation in part to his inability to fix Shearson.

The question now is whether Harvey Golub, the new CEO of AmEx, can repair Shearson without a prohibitive strain on AmEx' capital base. On Feb. 2, Standard & Poor's Corp. put AmEx and Shearson on review for a possible credit-rating downgrade. Golub's most pressing problem is to revitalize AmEx' card division. But the newly aggressive AmEx board will be closely watching his handling of Shearson. If Golub can't get quick results, says one former Shearson executive, the only choice left will be to chop Shearson up and sell its divisions. Golub intends to lay out his plans for Shearson at a Feb. 11 analysts meeting.

ROLLER COASTER. Shearson today is a combination of retail broker Shearson Loeb Rhoades, acquired by AmEx in 1981; Lehman Brothers Kuhn Loeb, an old-line investment bank with a history of political strife acquired in 1984; and E. F. Hutton, a troubled retail house bought in 1988. Absorbing Hutton caused many of Shearson's financial reverses.

In 1990, Robinson shored up Shearson's anemic capital base with a billion dollar infusion and replaced Cohen with Clark. And Robinson divided the firm back into Lehman Brothers, Shearson, and Boston Co. That established an identity for each, but created a divisive chasm. Then came several big write-offs. The result was a roller-coaster track record: $58 million in 1989 earnings; losses of $832 million in 1990; earnings of $159 million in 1991; and losses of $116 million in 1992.

Now, Golub can only sell Shearson to the public if he successfully attacks the firm's bloated costs, produces several years of solid earnings, and pulls the pieces together. That will require a new chief executive, since Clark has been pushed aside. J. Tomilson Hill and Richard S. Fuld Jr., Shearson's new co-presidents, are lobbying for the job. Under them, the elite Lehman Brothers investment bank has rebuilt itself. The two men, original Lehman Brothers partners who came up through the ranks, have argued that clients and the Lehman troops will defect if they don't get the top job.

They could have difficulty, though, healing the rift between Lehman and the Shearson Lehman Brothers retail division. Shearson brokers have refused to sell deals Lehman has underwritten. Hill, an investment banker, and Fuld, a trader, also may be unpopular with the AmEx board members who view Lehman's hefty bonus pool as a big part of Shearson's problem. Fuld and Hill declined comment. Golub says he is "extraordinarily confident in Tom and Dick." But he is exploring outside candidates also.

If Golub isn't tougher with Shearson than his predecessors, the firm could be his Achilles' heel as well.

By Leah Nathans Spiro in New York

FULD AND HILL: CAN THEY MAKE PEACE BETWEEN THE FACTIONS?

PHOTOGRAPH BY JEFFREY LOWE

BY GENE G. MARCIAL

HOUSEHOLD'S FOUNDATION MAY BE FIRMING UP

If you think computers can't be at least as good at picking stocks as humans, you'll get a vigorous argument from Dean Barr, chief investment officer at LBS Capital Management in Safety Harbor, Fla. He relies exclusively on artificial-intelligence technology to choose stocks and analyze market trends. LBS' $250 million portfolio of 30 stocks scored a neat 13.2% gain in 1992, notes Barr, comfortably outpacing the 7.6% garnered by the Standard & Poor's 500 index.

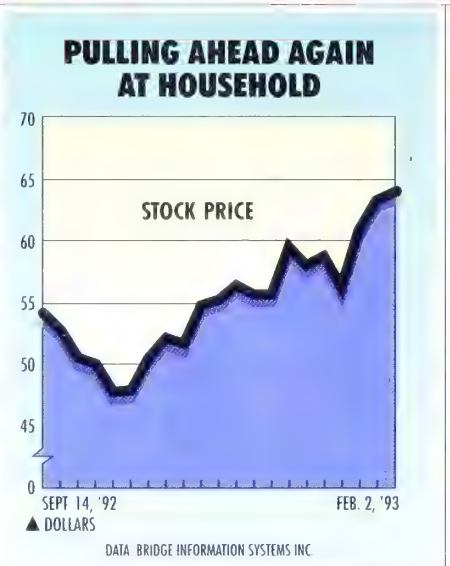
Here's what LBS' sophisticated technology is signaling now: Over the next six months at least, the best groups to be in are large-cap cyclicals and finance-related issues as market leadership rotates out of small- and mid-cap stocks. Which stocks are favored by LBS' computer? It likes several, but one that stands out, says Barr, is Household International, a major provider of consumer financial services, now at 64.

"Household is one of the inefficiently priced and undervalued stocks the computer picked out as early as last December," says Barr. Since then, the stock has hit a new high. "The rise is far from over," he says. "Statistical evidence on the stock and an upbeat fundamental outlook for the company suggest that Household's shares have quite a distance to go on the upside."

He figures the company will earn $6 a share in 1993 and $8 in 1994, up sharply from 1992's estimated $3.85. Based on his estimate for this year, Household is trading at a price-earnings multiple of slightly above 10. Barr believes Household deserves a p-e of at least 15, for a value of $90 a share.

TOO MANY FANS? Some analysts agree. PaineWebber's Gary Gordon is gung-ho based on the rapid growth he sees. True, on Jan. 22, Gordon downgraded his rating from a buy to "attractive." But that's because Household had run up sharply from the time he recommended it at 44 in mid-1992. He hasn't changed his earnings forecasts of $6.20 a share for 1993 and $7.50 for 1994.

Based on such projected growth, the stock is definitely very attractive, says Gordon. After suffering depressed earnings in the past two years, partly because of the recession, the company's Household Finance unit has tightened its lending standards and streamlined operations, he notes.



Part of the good news, Gordon adds, is that Household's delinquent loans have dropped by 20%, to just 4.5% of its total loans. He believes that this is the first sign that its borrowers' credit quality is rising.

COPYCAT SCENTS ARE FAR FROM STALE

Knock-off perfumes are smelling like a rose. Though very similar to their upscale counterparts, they're priced very much lower: $3 to $10 a bottle, vs. $30 to $200 for designer scents. And for Jean Philippe Fragrances, the second-largest knock-off fragrance producer, they have been a very profitable business.

Jean Philippe's shares have taken wing, from about 6 at the beginning of 1992 to 15 on Feb. 3. The stock's climb in 1991 was even more phenomenal: It flew from 1½ to 6 that year after this column took note of it in late 1990. With such a steep ascent, is the stock ready for the dumper?

"Not by a long shot," says a California money manager. Over the next two years, he expects Jean Philippe to hit at least 20 because of wider mass merchandising in the U. S. and abroad.

Duncan Soukup, an analyst at Bear Stearns, agrees that the stock is still way undervalued. After all, he says, the company's average yearly compounded growth rate since 1988 is a mind-numbing 45%.

Ladenburg, Thalmann analyst Jyoti Aggarwala figures that 1993 earnings will jump to 65¢ a share from 1992's estimated 48¢, vs. 1991's 27¢. And he expects 1993 sales to climb to $60 million from 1992's estimated $42.5 million and 1991's $26 million.

Aggarwala believes that Jean Philippe's French-made "alternative designer fragrances" will be big sellers at the counters of mass merchandisers such as Kmart, which is currently marketing a few of Jean Philippe scents. The company's products are already sold at Woolworth, which accounted for 10%, or $4.5 million, of Jean Philippe's total 1992 sales. Chairman and CEO Jean Madar expects sales there to jump 50% this year.

Aggarwala figures that exports of Philippe's Elite Parfums to Mexico, Brazil, and Argentina will add about $1 million to 1993 sales and that the opening of Russian and Eastern European markets should kick in an additional $1 million in 1993 sales.

CLEANER WOUNDS AND CLEAN ROOMS

For a small, relatively obscure company that has yet to post meaningful returns, it's intriguing that Wilshire Technologies has attracted a half-dozen smart-money investors who together have taken nearly a 35% stake in the company. Wilshire went public in late November at 6 and has climbed to 9, where it still trades.

Why the interest in Wilshire? Chairman and President Michael Crow has been able to convince these big guys that his company is destined to be a significant supplier of disposable, non-contaminating products for the medical and microelectronics industries.

Wilshire already sells disposable gloves, garments, synthetic swabs, and foam wipes to such customers as IBM, AT&T, and Digital Equipment. It also makes disposable wound-care bandages and other disposable products for medical customers that include Baxter International. This year, Wilshire plans to introduce gloves that it says are superior to the widely used ones made of latex, which shed particles and contaminate clean rooms.

Analyst William Gibson of Crutteden & Co. in Irvine, Calif., sees major numbers ahead for Wilshire. He figures the company will earn 90¢ a share this year on sales of $16 million and $1.60 next year on projected sales of $29 million. A fund manager in Santa Barbara, Calif., says Wilshire "offers me a shot at making three to four times my initial investment."

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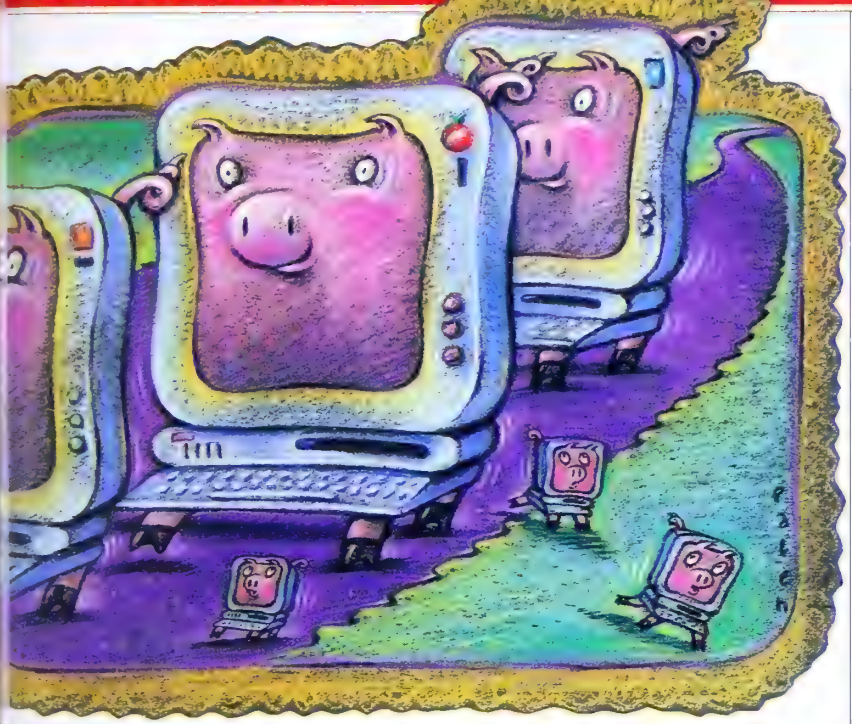

UTERS

: LAND'S LITTLE GUYS
:T SLAUGHTERED

ng features is the new game, and the giants play it best

st when you thought it was safe to ıy a powerful personal computer—rices can't get much lower, can —manufacturers have started a ɔrawl. The latest battleground is 'es. No, the price wars haven't l. But PC makers, rather than just ng prices as they did last year, are ing in new goodies: software, ex-d service contracts and warranties, and audio chips, and improved col-'eens for notebooks.

.t should keep consumers happy, 's bad news for small PC makers. eatures game favors the industry . that have the technical and finan-vherewithal to add new touches ıt raising prices. The upshot: The 'ands will continue to grab market "In 1993 and beyond, you'll in-ngly see the industry split into the and the have-nots," says Safi U. hey, president of No. 8 AST Re-ı Inc. in Irvine, Calif.

haves are already pulling ahead. pments jumped 11% last year, com- with 4% in 1991, and the biggest iciaries were the best-known brands. International Data Corp. estimates that the top 10 U.S. makers grabbed 58% of the total PC market last year, up from 52% in the prior two years (table). And, with the glaring exception of IBM, a late entry in the price wars, the biggest of the big did best. If IBM is eliminated from the top five, the remaining four—Apple Computer, Packard Bell, Compaq, and Dell Computer—claimed 29.7% of the market last year, up five points from 1991.

IBM seems to be bouncing back, too. The company says its new, low-cost ValuePoint pushed IBM PC shipments up 50% in the fourth quarter. Still, rivals hope turmoil in IBM's executive suite will halt those gains. "It creates a unique opportunity for us," says Compaq Computer Corp. CEO Eckhard Pfeiffer.

TOUGH TO MATCH. Compaq has already seized opportunities in the features war. In December, it announced a free three-year warranty on every computer it sells, the broadest of any PC maker. Its competitors are offering other extras. Take Packard Bell Electronics Inc., the No. 3 U.S. supplier. On Jan. 18, it announced a new line of PCs starting at $1,100. That's the same base price as last year's models, but the new ones include Packard Bell hardware to speed up the system and software to help customers master Microsoft Corp.'s Windows, which is thrown in free.

That's a tough offer to match if a company is selling only a few hundred units a month. True, small vendors once gobbled up market share by selling PC clones for less. But today, customers can buy a Compaq or an IBM for only $100 or $200 more than a no-name clone made by a company that may not be around tomorrow. To lure buyers, the no-names need both a lower price and superior features—not easy for companies that lack the engineering budgets to innovate and the financial resources to throw in such freebies as on-site service.

Just compare mail-order giant Gateway 2000 and much-smaller Advanced Logic Research Inc. (ALR). Gateway, whose revenues almost doubled to over $1 billion last year, was beset with service and support complaints in December. In response, it installed an automated phone system that can handle 5,000

THE BIG GET BIGGER AND THE SMALL GET...

1991
NUMBER OF UNITS SHIPPED
9.5 MILLION

THE TOP 10 PC MAKERS

	1991 U.S. UNIT SHIPMENT SHARE	1992 SHARE (ESTIMATE)
Apple	14.1%	14.3%
IBM	14.3	13.3
Packard Bell	4.8	5.6
Compaq	4.1	5.4
Dell	1.7	4.4
Gateway 2000	2.6	3.8
Tandy/GRiD	3.7	3.7
AST Research	2.4	3.1
Toshiba America	1.9	2.3
Zenith	2.1	2.2

DATA: INTERNATIONAL DATA CORP

1992
NUMBER OF UNITS SHIPPED
10.5 MILLION

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calls a day and hired 464 new employ
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staff of ALR, an Irvine (Calif.) manu
turer whose sales fell 9% in its f
year ended in September, to $207 mil
Saddled with excess inventory,
earned only $549,000 for the year,
pared with $14.7 million in 1991. A
prices are as low as Gateway's, an
technology is regarded as top-notch,
it can't match the service and suppo
the big guys, says Prudential Secur
Inc. analyst Marianne Wolk.

'SQUEEZED OUT.' Big guys also hav
edge when it comes to cutting c
They can negotiate volume discount
the components that determine u
80% of a PC's costs. Thus Compaq
sell its base model for just $100
than it costs a builder of only 200 to
units a month to make one. "The re
is that a lot of the third- and fourth
players are getting squeezed out," V
says. An early casualty: Everex Syst
Inc. The Fremont (Calif.) company
for Chapter 11 on Jan. 4.

Clone maker Zeos International Lt
Minneapolis and its crosstown r
Northgate Computer Systems Inc.
also having a rough time. For Zeos,
"fourth quarter was ugly," says Cli
Morrison, analyst at John G. Kinnar
Co. He estimates that the mail-orde
seller will report a 1992 loss of about
million. Northgate's revenues for
year's third quarter fell 22%, to $
million, causing a $4.3 million loss, a
has a negative net worth of $13.3
lion. Both companies say they are t
ing things around, and both have
veiled new products—at lower price

They have little choice. While PC r
ers and analysts agree that a reru
last year's 40% to 50% pricing free-f
unlikely, they figure prices will still
15% to 20% in 1993. It may not be m
comfort for the small fry, howe
Even though chip prices are expecte
slip this year, as clones of Intel Co
486 chip are introduced, the big pla
will probably gain the most, bec
they can command deep component
counts and better withstand price c

Indeed, with three suppliers of
popular 486 chips, the key to price
in 1993 may be squeezing concess
from the chipmakers. Albert J. Ag
CEO of Leading Edge Products In
Westboro (Mass.) subsidiary of Ko
Daewoo Telecom Co., says he consta
juggles the company's volume betw
Intel, Advanced Micro Devices
Cyrix. "It's their turn" to take the
gin hits, Agbay says. Clone makers
tainly hope so. They need the mone
fight the features war.

By Catherine Arnst in New York, with
Therrien in Chicago and bureau repo

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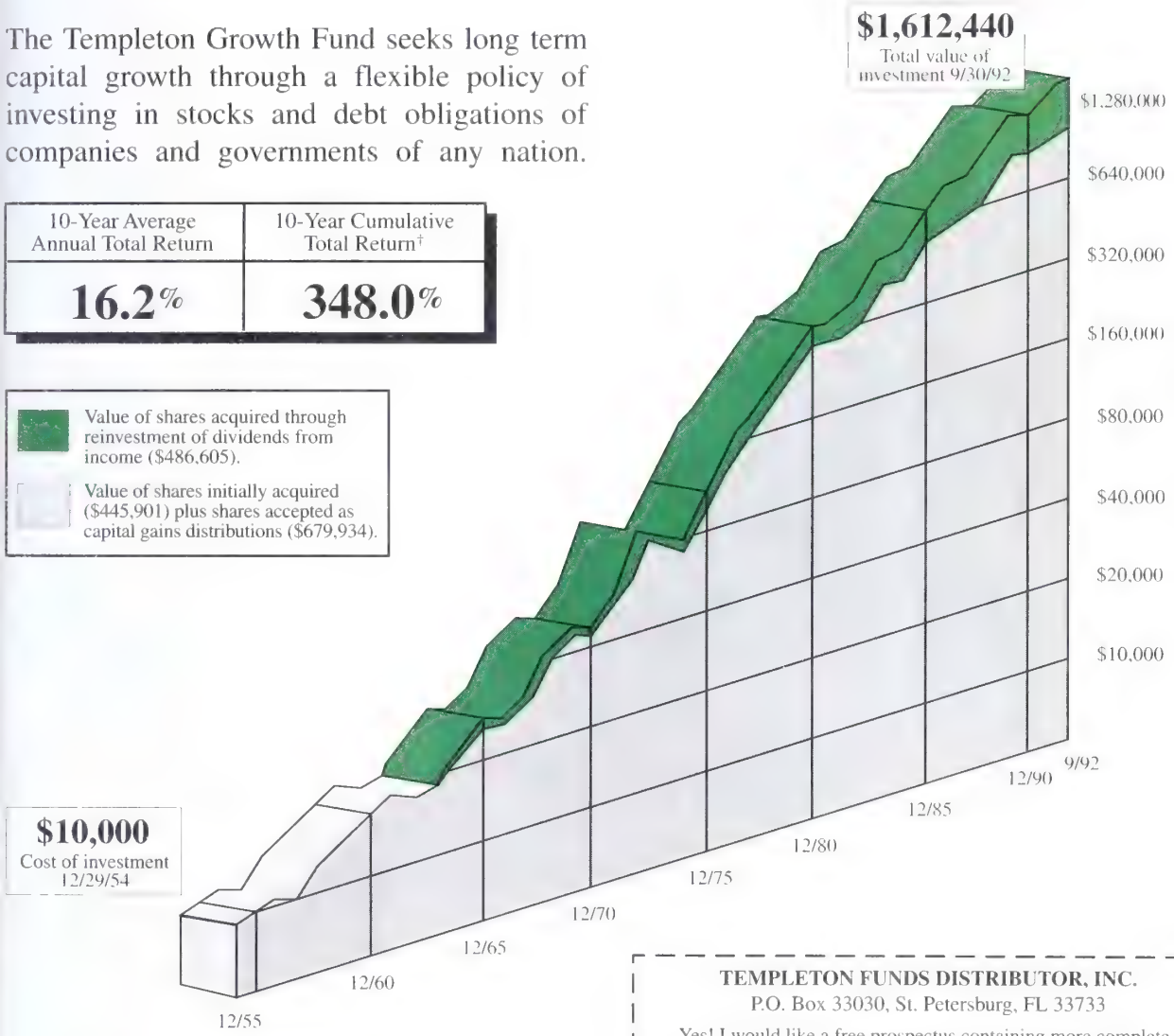

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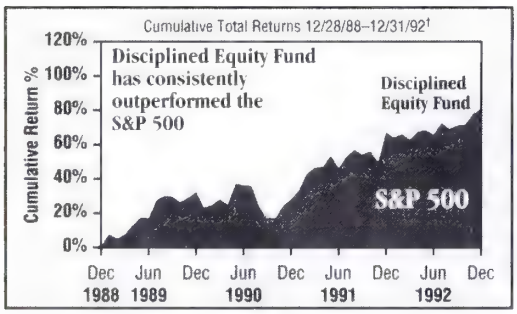

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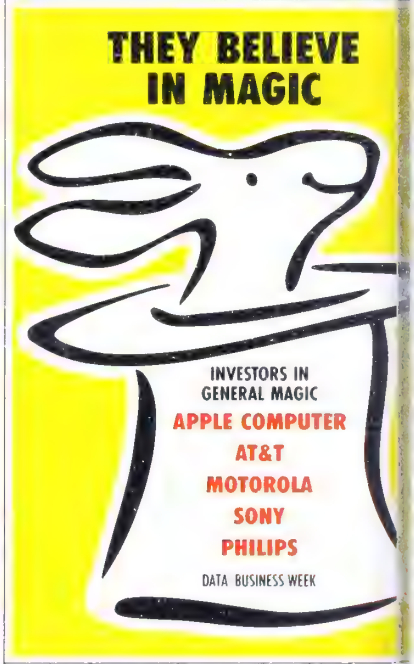
TELECOMMUNICATIONS

BIG PLANS FO SMALL TALK

General Magic's aim: Linkin up handheld communicators

Ask anybody who is in pers computers and telecommu tions what's hot, and the an is likely to be the same: handheld munications devices that will use less and conventional phone networ keep people in touch wherever roam. These gadgets—such as A Computer Inc.'s forthcoming Newt point to a new way of sharing info tion by their ability to send mess faxes, and even hand-drawn sketche



could create a whole new indu

But there's one big catch: Ur these "personal digital assistants" "personal communicators" and the works they'll rely on all speak the s language, there may only be an elect ic Tower of Babel. That's where Ge Magic Inc., a well-connected sta spun out of Apple, thinks it can f void—and make its fortune. Backe Apple and such heavyweight inves as Sony, AT&T, Motorola, and Philips. Mountain View (Calif.) company spent the past three years secretly c ing up a pair of programs it hopes set the standard for a promised worl "anywhere, anytime" information.

ı Feb. 8, the privately held company s to introduce Telescript, a "commu- ions language," and Magic Cap, in- ce software for the new handheld nunicators. With programs using script running on both the handheld es and on the computers controlling ronic-mail or information networks, aveling executive, for example, ld be able to check airline schedules ıgh a pocket-size device without us- complex computer codes. Telescript "intelligently extract information," Mike Homer, a vice-president at vare maker GO Corp.

ıgic Cap is intended for PDAs and handheld devices. General Magic's rammers include several who d create the Apple Macintosh, and goal for Magic Cap is an on-screen arance that will be as easy to use as Mac, with similar employment of pic- called icons. "It's very friendly— e not going to see directories and " says Alan A. Reiter, editor of the letter *Mobile Data Report*.

OY PARENTS. In addition to its inves- who plan to build hardware using ral Magic's programs, the company orking with data services that can de information such as news re- or stock prices. Among them are l Corp., owner of the Nexis and services, and News Electronic , a division of Rupert Murdoch's s Corp. Ltd.

neral Magic refuses to talk about lans before its announcement, but ıltants who have been briefed say company hopes to emulate Adobe ems Inc., whose PostScript software ne the lingua franca for electronic shing. Setting such a standard is a rder, which is where the company's rful parents come in handy. AT&T s to provide the communications , both wired and wireless, and has loped a pen-based communicator ıgh EO Inc., a venture with Japan's ushita Electric Industrial Co. and ıbeni Corp. AT&T is also expected to unce a consumer-messaging service General Magic's technology. IBM still negotiating a possible invest- in General Magic a few days be- the Feb. 8 announcement.

t even if General Magic can set a lard, it may not be enough to h a new industry. For starters, the ess networks that are supposed to de universal communications for devices may not be in place for s. Another problem is who General c doesn't have on its side: Microsoft . The software giant, which controls ey standards in PCs, is working on wn programs for communicators. Microsoft weighs in, it may take than magic to build an industry.

By Bart Ziegler in New York

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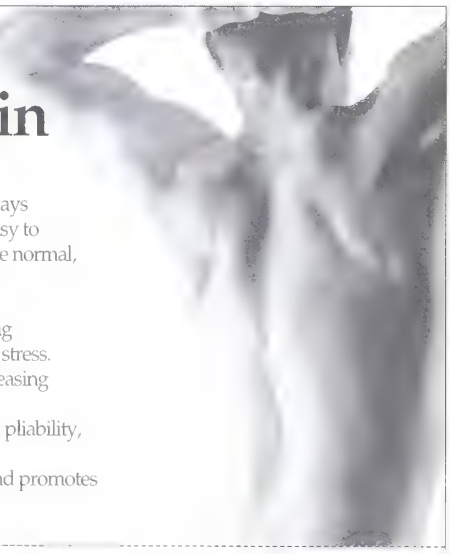

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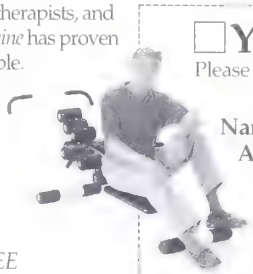

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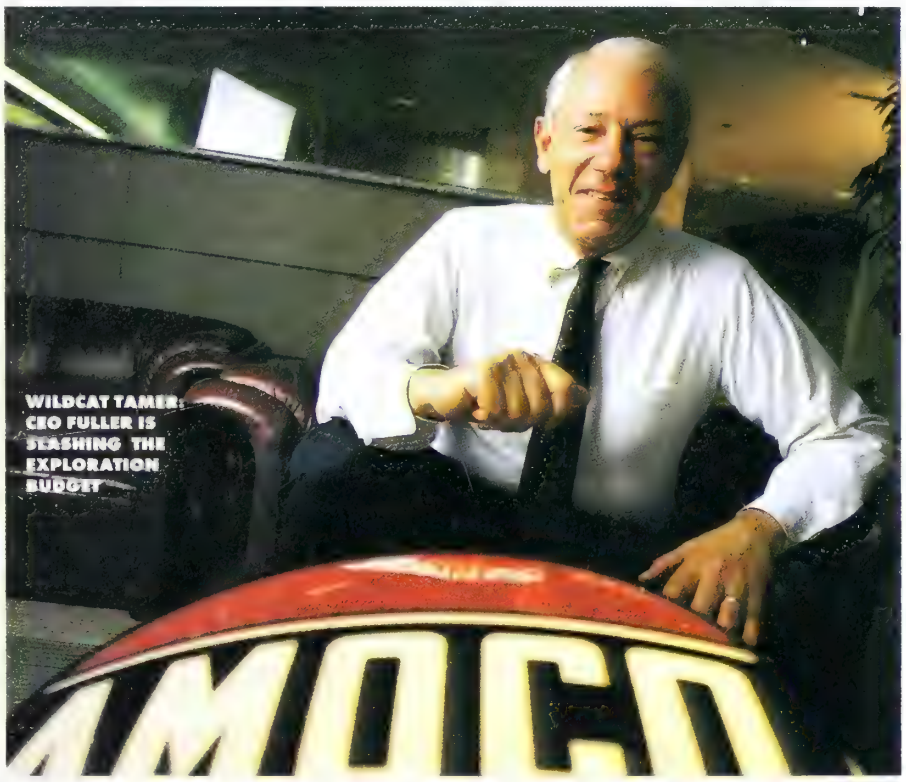
STRATEGIES

AMOCO: RUNNING SMOOTHER ON LESS GAS

Unbridled growth is no longer the way. Diligent downsizing is



WILDCAT TAMER: CEO FULLER IS SLASHING THE EXPLORATION BUDGET

Drill, drill, drill again. That strategy drove Amoco Corp. through much of the 1980s. Simply by sinking a lot more wells than its competitors, the Chicago-based giant became the top domestic oil explorer—and one of the most profitable. Even when the oil market collapsed in the latter part of the decade, Amoco, hopeful that prices would ultimately rebound, never wavered in its commitment to exploration.

Now, as Amoco braves the 1990s, its chief executive, H. Laurance Fuller, is learning to adjust to a more complex energy environment. "After the oil shocks of 1973 and 1979, the industry developed this onward-and-upward mentality about crude prices," Fuller says. But slackening demand, softening prices, and a downturn in profits in recent years have convinced him that more oil alone won't help.

So the 54-year-old Fuller, who has a B. S. in chemical engineering and a graduate degree in law, has launched a top-to-bottom overhaul to create a leaner, nimbler Amoco.

Fuller took a big step in implementing his plan last July, when he announced a massive restructuring that included axing 8,500 employees, or 16% of the work force. Since then, he has been trying to boost productivity and slash costs at Amoco's aggressive exploration business. No longer willing to gamble millions on long shots, Amoco is turning away from wildcatting. Instead, it will concentrate its 1993 exploration and production budget of $1.8 billion on basins with proven petroleum reserves.

CUT THE FAT. So far, the game plan has shown promising results. Amoco announced on Jan. 25 that its net income more than tripled, to $548 million, in last year's final quarter. Cost-cutting was key, since reve rose less than 1%, to $7.2 billion. A Amoco's margins are expected t prove even further. By yearend, H expects to wrest $600 million in p savings from the downsizing. Excl special charges, earnings will soar in 1993, to $1.66 billion, says Werte Schroder & Co. analyst Michael L. er (chart). Many analysts expect nues to rise by only 3%, to $29 bil

Still, it's far from certain that cos ting and better productivity can come the softer energy market. C demand for crude will rise about year through the 1990s, and pricin just keep pace with inflation—a fa from the fifteenfold jump in the 1 says analyst Benjamin M. Rice Brown Brothers Harriman & Co.

And then there's the compet Amoco is not the only major oil pany trimming down for tougher t Big Oil is feverishly dismantling th mense bureaucracies and exploratio forts that it built on the expecta of bouyant demand and ever-rising es. In the past two years, Chevro lantic Richfield, Texaco, Shell, and o have initiated sweeping reorganiza collectively laying off some 51,000 employees.

GLOBAL PYGMY. Fuller acknowl that it will take more than just la to help Amoco stand out. To gai keep a competitive edge, the com needs a cultural transformation as The chain-smoking 32-year company eran, who has been CEO since Febr 1991, is trying to break down Am highly centralized bureaucracy. F wants smaller, less hierarchical oper units that no longer need umptee ferent approvals from headquarter fore hiring a new engineer or start seismic study. Recently, without interference from headquarters in C go, an Amoco project team made midlevel managers and engineers up with a design and construction s ule for a $570 million natural-gas

AMOCO'S NEW STRATEGY...

LOWER COSTS
Restructuring announced in July axed 8,500 staffers—16% of the work force. Hopes to cut $600 million in pretax operating costs by yearend

TARGETED EXPLORATION
Wildcatting is out. Concentrating international search for oil and natural gas in areas with proven energy reserves

FASTER DECISI
Centralized bureau giving way to smalle units. Stock options all 45,000 employe encourage indepen

NEW PRODUCT
Has begun a test pr compressed natural Also marketing Crys Ultimate, a cleaner

ng platform in the North Sea. It the largest single investment made moco in the Dutch North Sea.
ıd to encourage employees to be independent and focus on the bot- line, the company last year rolled ı stock-option program for nearly its 45,000 staffers, not just the r executives. Under a new bonus most workers will soon receive equal to 4.4% of their annual pay. ımount of the bonus is tied to the

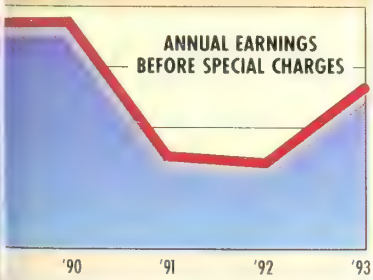
A gasoline sales tax ıld probably translate into flat sales at the pump

return on Amoco's stock—dividends stock-price gains—which stood at in 1992, outpacing most of its oil

rhaps the most practical applica- of Amoco's new strategy can be in its overseas energy exploration. North American giant but an inter- nal pygmy, Amoco mounted a e abroad in the late 1980s in search big oil or gas find. The company a scattershot approach, looking for d natural gas in 100 countries. But esult was disappointing. From 1989 91, Amoco was spending $6 for eve- rrel of oil equivalent that it found— e the cost for industry leader Phil- Petroleum, says Goldman, Sachs &

FLOP. Nowadays, Amoco is far selective when it comes to explo- ı and production. It's limiting its ration to only 20 countries, favoring where it has had past experience. ina, where Amoco has been drilling ore since 1987, it has struck a deal the first foreign company to ex- on the mainland.
hold production costs down else- e, Amoco has sold off or swapped eds of its existing oil and natural- oldings in order to group proper- ogether. Adjacent fields are cheap-

IY SPARK A TURNAROUND



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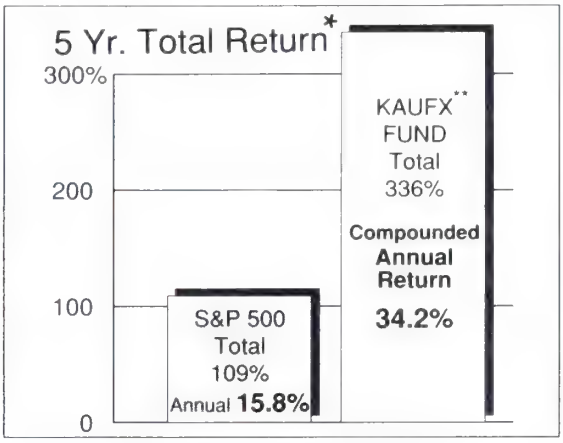

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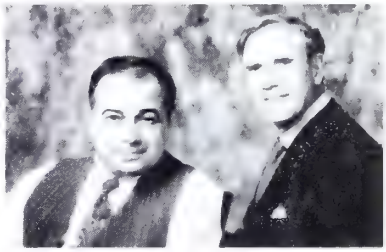

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er to exploit because they generall quire fewer workers and less equipm In Canada, for example, Amoco shrunk its properties to 900, from in 1987.

Fuller is also pursuing a more averse strategy in Amoco's che business. Amoco flubbed its high-p attempt to take on entrenched l Du Pont Co. in carpet fibers and rics, and it has significantly scaled that effort. Instead of focusing on cialty markets, Fuller has decid play to Amoco's strength in basic icals. The company is building ove plants to expand its business in fied terephthalic acid (PTA), the building block for polyester.

GAS BUGGIES. As for Amoco's retail ness, Fuller hopes to benefit fron rising demand for alternative and er fuels. Amoco, with a 9% share o U.S. gasoline market, recently i duced Crystal Clear Ultimate, a cle burning version of its premium line. Amoco has also become the aggressive marketer of compressed ural gas as a motor-vehicle fuel. As of a nationwide test, it has installed pumps at 12 gas stations and pla expand the network to 20 by yea So far, only a few dozen fleet opera own vehicles that run on natural but Fuller is betting that the CNG ket will pick up. And with good re The Clinton Administration is a big porter of alternative energy sourc

Wider use of alternative fue bound to hurt Amoco's high-margin oline business, but Fuller believes new products will be critical for f profits. That's especially true give sobering price outlook for oil. Even uary's rumblings from OPEC about ing production, while giving a s term boost to prices, probably mean much for the oil market lo term. Another worry: the specter gasoline sales tax to help close the get deficit. Such a levy would pro translate into flat sales at the pum

The outlook isn't much better for ural gas. While sales will grow at annual clip in North America, abun supply will keep price hikes mo True, at $1.55 per million cubic natural gas prices are 55% higher they were last year. But that's still less than in 1990.

Still, with his new strategy fa into place, Amoco's CEO says he his prospects. "I've never seen a tin the business when there's more opp nity," he says. The challenge for F however, is to prove that a more Amoco can seize those opportunities turn them into a gusher of profits.

By Lois Therrien in Ch

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TRANSPORTATION

CAN A NEW BIRD GET GULFSTREAM FLYING?

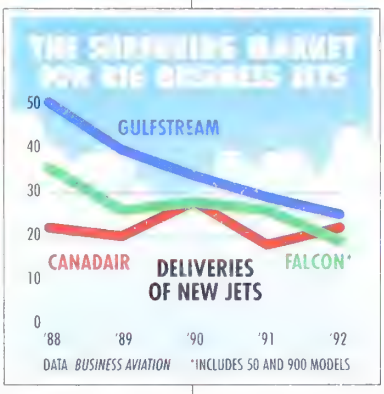
Its long-range G-V model is a risky $150 million gamble

For years the seat-belt sign has been flashing at Gulfstream Aerospace Corp. Sales of its top-of-the-line Gulfstream IV business jet have slowed to a trickle. Last year, Wall Street humbled the Savannah (Ga.) plane maker by turning thumbs down to a planned $100 million initial public offering that would have eased debt from a 1990 buyout. Gulfstream's new plane deliveries have fallen for four years running (chart), driving revenues to an estimated $900 million in 1992 from $1.12 billion in 1988. Weakening global economies would seem likely to extend that trend.

But don't tell that to Gulfstream's owner, Forstmann Little & Co. The New York buyout firm bought Gulfstream for $850 million in 1990. The company is reporting positive cash flow and improved margins but has yet to produce any profits. Still, in a gutsy, contrarian move, Forstmann has invested an additional $200 million to fund expansion and pay down debt. Breaking with tradition, Gulfstream will keep a souped-up version of the G-IV in production when it begins delivering a new ultralong-range model, the Gulfstream V, in 1996.

FREE-FALL. Forstmann is hoping the new jet will return Gulfstream to its glory days when it virtually owned the large-business-jet market in the early '80s. The question is: Will enough companies feel a need to buy it? With a flying range of 2,000 miles more than any existing business jet, the G-V will be able to carry eight passengers and a crew of four nonstop from New York to Tokyo in 14 hours. The price of a fully outfitted G-V is $35 million, $7 million to $9 million more than the G-IV. "We see this as very, very much a winner," says Forstmann Little senior partner William Brian Little.

Others aren't so sure. Gulfstream's chief rivals, the Canadair Group unit of Bombardier Inc. in Montreal and France's Dassault Aviation, are both working on long-range jets, but neither has committed to production. Part of the reticence is cost. Gulfstream pegs its own research and development costs at less than $150 million because the jet will be a stretched version of the G-IV. But Canadair's and Dassault's own jets would require much more radical changes, which would cost them nearly $1 billion each to produce planes capable of matching the promised 6,300-nautical-mile range of the G-V.



Being first to market is usually an advantage, but industry analysts question whether there's enough demand to make such a plane successful for even one manufacturer. Gulfstream President and Chief Executive William C. [illegible] bets there is. In December, he lau[illegible] plans for an 80% expansion of the [illegible] pany's manufacturing facilities by 9[illegible] He says he already has a dozen [illegible] commitments for the new jet an[illegible] pects another dozen by July. "Lo[illegible] the growth in Latin and South Am[illegible] Malaysia, Eastern Europe," says [illegible] "We see a tremendous opportunity [illegible] the next 10 to 12 years."

Perhaps. But don't expect Corp[illegible] America to admit that. Wary of s[illegible] that characterize business jets as [illegible] perks, only one customer for the [illegible] Seagram Co., was willing to be i[illegible] fied. Similar attitudes prevail in J[illegible] And a shortage of jet-parking spa[illegible] Asian airports [illegible] further impedim[illegible] companies consid[illegible] jets. "If Gulfst[illegible] could sell one [illegible] year in Asia, [illegible] would be extra[illegible] nary," says Jim [illegible] es, managing di[illegible] of Indoswiss Avi[illegible] a Hong Kong-[illegible] leasing company.

Even proud [illegible] ers of Gulfstre[illegible] earlier jets [illegible] mixed signals. William C.W. Mow, [illegible] man of fast-growing apparel make[illegible] gle Boy Industries Inc., based in [illegible] Valley, Calif., took delivery of a [illegible] in November and says it already is [illegible] ing him boost sales. He visited 18 [illegible] in 16 states in a whirlwind thre[illegible]

CEO LOWE SAYS HE HA[illegible] A DOZEN ORDERS FOR THE $35 MILLION PLA[illegible]

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trip after buying the jet. Still, though he will be visiting factories in China often, Mow says he won't likely step up to a G-V, since he can use his G-IV and stop for refueling.

Audacious moves haven't always been Gulfstream's hallmark. Long known for building the biggest and most expensive business jets, Gulfstream was conservatively run by Allen E. Paulson for 15 years. He took it public in 1983, then sold it to Chrysler Corp. in 1985 but remained as chairman. When the auto maker put it on the block in 1989, Paulson teamed with Forstmann Little to buy it again. Last year, after stepping down as CEO, Paulson sold his 31% stake to the buyout group for $50 million.

NEW RECRUITS. Lowe was recruited by Forstmann Little in 1991. He headed IBM's personal-computer business in the mid-1980s and then ran manufacturing for Xerox Corp., using a Canadair Challenger jet to tour 18 plants and 6 labs worldwide. His arrival at Gulfstream was a mandate for change. Traditionally, most sales efforts had been directed at companies already flying Gulfstreams, he says. "Our salesmen typically were ex-military pilots [who] had good relationships with corporate flight departments but weren't necessarily the best at dealing with CEOs." His response: Set up a new marketing unit to go after companies that hadn't previously owned jets.

The idea of building a long-range jet had been kicking around for years. But it didn't spring to life until Gulfstream's chief designer, Senior Vice-President Charles N. Coppi, got a commitment last year from BMW Rolls-Royce, a joint venture created in 1990, to speed up by a year development of a new, higher-thrust engine.

The results were even better than expected. Instead of simply matching the 5,600-mile range being discussed by Canadair for its proposed Global Express jet, a technological breakthrough by the engine maker meant that Gulfstream could promise 6,300 miles—a 50% improvement over the G-IV.

The next move is up to Canadair. Bryan Moss, president of Bombardier's business-aircraft division, says a final decision on the Global Express will be made this summer. Dassault says it isn't convinced that market is large enough to justify a 6,000-mile range craft.

Time will tell who is right. Investors in Forstmann Little funds who now have $600 million tied up in Gulfstream have no choice but to go along for the ride. The goal is obviously to return to the IPO market at some point. But getting there may prove to be a white-knuckle flight.

By Chuck Hawkins in Savannah, Ga., with bureau reports

THE HIGH-VOLTAGE RIVALRY IN BATTERIES

Companies big and small keep turning out competing technolo

Draw up a roster of technology backwaters, and batteries might rank near the top. It has been 200 years since Italian Count Alessandro Volta invented the first one, but the next really big breakthrough was nickel-cadmium (nicad) batteries for portable appliances—and those appeared about 25 years ago.

Suddenly, though, two necessities are mothering a brood of battery inventions. The environmental movement is demanding a safe alternative to cadmium, a toxic heavy metal that can leach into groundwater when nickel-cadmium batteries are dumped in landfills. Consumers, meanwhile, can't get enough of portable devices, such as pocket phones, laptop computers, handheld TVs, and electronic organizers—all of which need smaller, lighter, and longer-lasting batteries. Today's batteries account for up to 12% of the size and 30% of the weight of a notebook computer—making them one of the biggest hindrances to the continued growth of portable electronics.

PERFECT TIMING? Fortunately, science is on the case. Since 1990, engineers have made big strides with materials that, when mated in a circuit, deliver strong electrical current at high voltage over long periods. Japanese companies have introduced two new rechargeable designs: nickel metal hydride and lithium ion. Close on their heels is a promising prototype called lithium polymer, which is being developed by Silicon Valley startup Valence Technology Inc., among others. Once that battery reaches market next year, a three-way fight should break out over a global market that analysts at Montgomery Securities expect to grow from $2.4 billion at the moment to $4.2 billion by 1997. "Practically overnight, the battery's role has gotten much more important," says Takashi Shimada, president of A&T Battery Corp. in Tokyo.

Nickel metal hydride began the '90s as the odds-on favorite to replace nicad. Besides being low in or free of cadmium, it offers about 50% more energy output by weight (table). Several Japanese companies, including Hitachi Maxell, Matsushita, Sanyo Electric, and Toshiba, began selling nickel-hydride batteries in the past three years. Already, despite a 50% to 100% price premium over nicads, they have captured nearly 10% of Japan's rechargeable market. Meanwhile, Varta of Germany and Duracell have teamed up with Toshiba to cooperate on nickel-hydride research and production. And Toshiba has started supplying Varta and Duracell with nickel-hydride batteries for sale under their own labels.

Only Sony, among the Japanese makers, missed out on nickel hydride. In 1990, we realized it was too late for us. So we concentrated on something entirely new," says Koichi Tsunoda, president of Sony Energytec Inc., a U.S. subsidiary. That something is lithium ion, a type of rechargeable that had been expected to reach market until the mid-1990s. By May, 1991, Tsunoda and his team of 100 engineers and scientists had perfected a lithium-ion battery for an 8¾-ounce Sony cellular phone. It was the smallest and lightest phone available, Sony claims.

Then last fall, Sony launched its $1,440 TR-1 camcorder, the first one powered by lithium ion. The battery pack is small enough to fit in the 1-pound camera's housing, so recharg

RECHARGEABLES HOW THEY STACK

Batteries generate electricity when flow from one material toward and chemical reaction. In rechargeable teries, applying an outside source electricity reverses the reaction and charges the battery. Scientists are new combinations of materials to rechargeables smaller, cheaper, efficient, and less toxic. Here's how promising new batteries stack up an old standby, nickel-cadmium

ly requires setting the camera on a lled handycam station. "Some mak- vere shocked" when Sony trumped el hydride with lithium ion, says Battery's Shimada. Now, his compa- nd others are playing catch-up.

many ways, lithium is the ideal rial for batteries, which generate energy as current flows from a rial that sheds electrons, through levice to be powered, then to an- material that accepts electrons. um surrenders electrons more read- an cadmium or any other element, ing lithium-ion batteries to boast times nicad's voltage and three the power output by weight as The higher voltage is a short-term back, because consumer-electronics ment has to be redesigned to use it the backers of lithium ion—com- s such as Matsushita, Sony, and ba—are happy to tackle that job. it's done, lithium-ion batteries will ble to run devices—such as video as—that would have required three batteries harnessed in series.

SANDWICHES. Already, Sony and s are ramping up production of lith- ion. Sony Energytec is shipping 00 two-cell packs a month to Sony ther Japanese electronics makers, t plans to boost that volume by this year. Last October, Toshiba sahi Chemical Industry Co. formed Battery, a joint venture that will shipping 100,000 packs a month pring and 500,000 by fall. Matsushi- hich has invested $80 million in ration for lithium ion, plans to start ing sample batteries in March. "By we should see a real market ge," says Yasuo Ohira, head of the Energy Business Headquarters at Electric.

wever quickly lithium-ion batter- tch on, most experts expect nicad ickel hydride to survive for many . That's because lithium ion can't emit the strong bursts of current necessary to drive the likes of power tools and computer disk drives. "For that kind of thing, nicad is better," says Ohira.

There is another catch: Lithium's reactivity makes it prone to burn or explode. Nippon Telegraph & Telephone Corp. several years ago recalled a mobile-phone model whose lithium-metal battery overheated, injuring a customer. Sony overcomes that by keeping lithium in the form of charged particles in a liquid electrolyte, the conductive material between the electrodes. It also uses special control circuitry and a safety vent to prevent sudden overheating or explosion of the battery through overcharging or penetration of the seal.

Tsunoda and his team at Sony focused on lithium ion—and left rivals playing catch-up

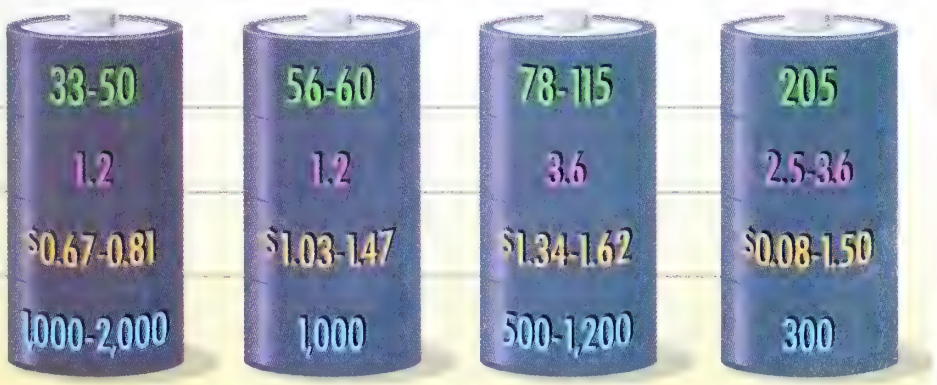
Such concerns aren't an issue with the newest rechargeable battery, lithium polymer. It eliminates risk of a dangerous reaction by using an electrolyte that's a solid, plastic-like film rather than a liquid. A reaction can't speed out of control because fresh electrolyte can't flow toward the reaction site. And that isn't the only advantage of lithium polymer: According to Valence Technology in San Jose, Calif., lithium polymer's energy output by weight is twice that of even lithium ion, the nearest competitor. The batteries look like foil sandwiches and can be cut into any shape—or folded and then stuffed into crevices.

Four-year-old Valence hasn't sold a single battery yet. But it has $20 million in research and development backing from General Motors Corp.'s Delco Remy Div. and $14.5 million from the U. S. Advanced Battery Consortium, which is looking for a battery to power electric vehicles. And in December, Motorola Inc. agreed to purchase $100 million worth of Valence batteries from 1994 to 1996 for cellular phones and the like. Wall Street is taking notice: Since Valence went public last May at 8, its shares have soared to 21, giving the startup a market value of more than $400 million.

Japanese rivals are raising doubts about Valence—even as they pursue their own research into lithium polymer. Valence's "technology is very interesting and unique, but we feel it could take much more time to actually manufacture the batteries than they think," says Sony's Tsunoda. "Lab experiments and putting something into mass production are two different things." A&T Battery's Shimada agrees: "I can't imagine it coming out within the next two or three years." Meanwhile, chemical engineer Elton J. Cairns of Lawrence Berkeley Laboratories says lithium-polymer batteries might cost as much as lithium-ion batteries per watt-hour of output—not the small fraction that Valence claims.

Sour grapes, says Valence Chairman Lev M. Dawson. He says he's on track to start shipping by mid-'94. "They don't know when I started, and they don't know where I am," he says. "Our process is easier to manufacture than theirs. They can believe whatever they want." Now, there's a sign that the industry is on the move: a man with a passion for batteries.

By Robert Neff in Tokyo, with Peter Coy in New York



DATA: SONY, MONTGOMERY SECURITIES, LAWRENCE BERKELEY LABORATORIES

PHOTOGRAPH BY MITSUTAKA; FASHIONA CHART BY RAY VIL, A. BW

Developments to Watch

EDITED BY PETER COY

USING PENTAGON SATELLITES TO PREDICT RAINSTORMS...

Rainstorms and tornadoes are hard to predict partly because forecasters lack good data on water vapor in the atmosphere. Concentrations of water vapor vary dramatically within small areas. Those variations aren't picked up by weather balloons, which are launched only twice a day in locations that are far apart.

To make predictions better, scientists at North Carolina State University in Raleigh have devised a way to sense water vapor by using the Global Positioning System (GPS), a network of satellites launched by the Defense Dept. for global navigation. As radio signals from the satellites come through the earth's atmosphere on their way to ground receivers, water vapor causes the signal waves to bend, delaying them. The length of the delay indicates the amount of vapor. And there's no limit on how often the measurements can be taken. In May, the group will conduct tests in a tornado-prone region of Oklahoma.

...AND LEAFING THROUGH HISTORY BOOKS TO HANDICAP THE WEATHER

Harold Mollin has figured out a way to predict the weather without meteorology. Mollin is chairman of Customized Worldwide Weather Insurance Agency Inc., a Great Neck (N. Y.) insurer that pays off its policyholders if the weather isn't to their liking. Mollin bases his predictions on historical weather information, which he says he has from 50,000 locations worldwide, some of it dating back 100 years. The statistics determine his premiums: Say, $1,000 to an event organizer who wants $10,000 if it rains more than a tenth of an inch between 1 p.m. and 5 p.m. on Aug. 15 in Manchester, Vt. His clients have included ski resorts, farmers, and advertising agencies. Among the movies whose shootings he has insured are *Basic Instinct* and *The Last of the Mohicans*.

Mollin isn't the first to take a stab at weather insurance. Lloyd's of London occasionally writes weather policies, and Mollin himself used to work for a competitor, Good Weather America Corp. in Syosset, N. Y. He says he can write smarter policies because he has more complete data—a claim that Good Weather disputes. Both companies use programmers who forecast weather in places where data are scanty by comparing them to other places with statistically similar climates for which better data are available.

CARCINOGENS: IT'S TIME TO BUILD A BETTER TEST RAT

Which chemicals cause cancer in people, and if so, at what doses? For more than two decades, scientists and regulatory agencies have answered these questions with a standard test. They gave rats the highest dose of a chemical the animals could stand, then looked for evidence of cancer. Based on these tests, hundreds of substances have been classifi carcinogens.

A Jan. 28 report from the prestigious National Acaden Sciences documents serious flaws in this approach. Rese shows that chemicals often act very differently in rats th humans. For example, saccharin causes cancer in rat reacting with a protein in the urine. But humans have far of this protein, so the test on rats overestimates risk to pe Unfortunately, there's no unanimity on what to do. A thi the experts on the 17-member NAS committee call for fig out the actual mechanisms by which the substances affec body. The rest of the panel recommends continuing to us standard tests until new methods are perfected. The adv report could affect risk-assessment reform proposals b Congress and the Environmental Protection Agency.

EASIER ACCESS TO JAPAN'S LATEST TECHNOLOGIES

Patent Abstracts of Japan is a treasure trove for A cans who want to learn about leading-edge technol across the ocean. It's an English-language compendium o abstracts, or summaries, of new applications that haven' been examined by the Japanese patent office. Until now exclusive U. S. source for computer access to the public was Orbit Online Products, a service of Maxwell Commu tion Corp.'s InfoPro Technologies in McLean, Va. But Japanese government recently decided to end the excl arrangement and allow the abstracts to be carried by data-base services.

Dialog Information Services Inc., a unit of Knight-R Inc., says it is close to signing a deal to carry the abstr Peter Rusch, a Dialog vice-president, says pricing hasn't set but probably will run roughly $2 a minute for conne to the data base and $1 per abstract that's retrieved. Orbi charged about $2.80 a minute and 55¢ per abstract.

THESE CLEAN-RUNNING BUSES WILL HUG THE GROUND—IF NOT A TREE

City buses have two big drawbacks: They pollute, and they're hard to climb into. The New York City Transit Authority is trying to solve both problems at once by going partially electric. Last year, it received a $2.3 million grant from the Federal Transit Administration to develop a hybrid diesel-electric bus that will emit far less pollution and will have a floor just 14 inches above street level. T done by getting rid of the bus's axles. Each wheel will hav own electric motor, which will get its juice from either a d engine or batteries.

The buses are being developed by General Electric research labs in Schenectady, N. Y., and by a unit of On Bus Industries Inc. in Mississauga, Ont. The diesel engine be about 150 to 190 horsepower, compared with 277 f conventional New York bus. On uphills and highways, it be supplemented by the batteries. When the strain is light engine will generate electricity to recharge the batteries.

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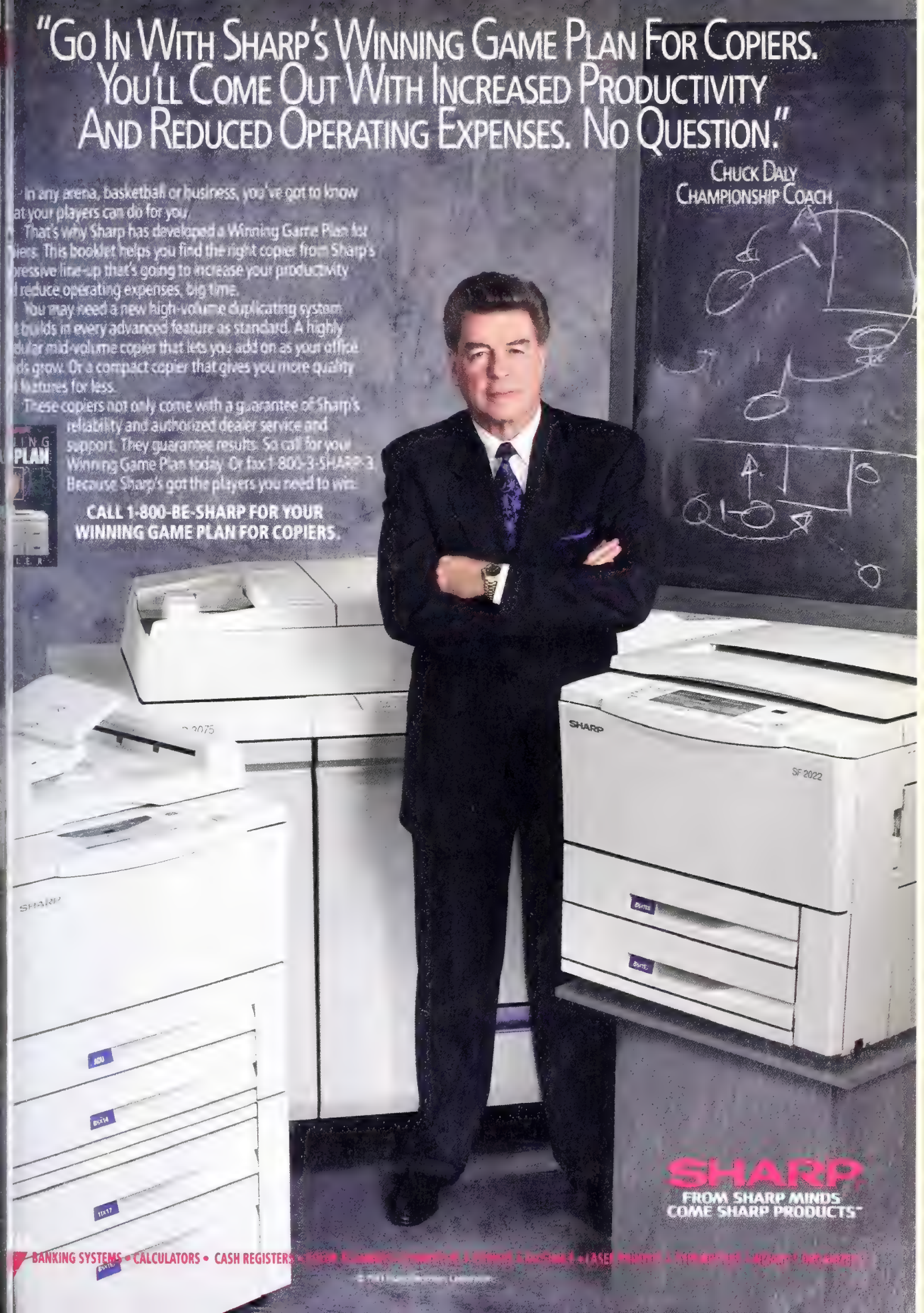

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AT&T

BOXING

THE GREAT HISPANIC HOPE —FOR ADVERTISERS

As a Latino pitchman, Oscar De La Hoya could be a heavyweight

It might appear that Oscar De La Hoya has already claimed his share of the American Dream. Born in the East Los Angeles barrio, De La Hoya chose the gym over drugs and gangs and became one of the top amateur boxers in the U. S., amassing a 225-5 record. He was the only American boxer to win a gold medal at the 1992 Olympics. He celebrated his victory in Barcelona by circling the ring with an American flag in one hand and a Mexican flag in the other.

But De La Hoya has his eye on bigger prizes. Shortly after the games, he signed a $1 million-plus management contract, the richest ever for an amateur boxer, and turned pro. Sure, De La Hoya wants a shot at the lightweight title, but he's also after the mass-market endorsements that few boxers get a crack at.

With a 3-0 record as a professional, it's a little early to call De La Hoya the Great Hispanic Hope. But as the 20-year-old prepares for a Feb. 6 fight against Curtis Strong on ABC's *Wide World of Sports*, advertisers are starting to look at him as their entry into the $72 billion Hispanic consumer market.

PERFECT FIT. Working in De La Hoya's favor is the scarcity of high-profile Latino pitchmen. "It's a community dying for idols," says Robert Mittleman, his business co-manager. And De La Hoya is likely to appeal to the young male viewers that advertisers covet. "He'd fit perfectly for male demographics," says Randy Ransom, an account executive at ad agency Mendoza, Dillon Asociados Inc. in Newport Beach, Calif. "Boxing is the No. 1 or 2 sport on Spanish-language television."

No wonder De La Hoya has marketing experts in his corner, along with the trainers and cut men. Last September, De La Hoya signed with boxing agent Mittleman and Steve Nelson, a New York mortgage banker. Mittleman and Nelson brought in Lon Rosen, best known as the agent of retired basketball star Magic Johnson, to scout out endorsement deals.

A few small deals have already rolled in. Since September, 1992, De La Hoya has been pitching cars for Southern California Chevrolet dealers, sportswear for B. U. M. Equipment, and the evening news broadcast of KNBC-TV, the Los Angeles NBC affiliate. "He'll make a helluva spokesperson," says Bert R. Sugar, editor and publisher of *Boxing Illustrated*. "He has a great-sounding name, good looks, charisma."

Big national deals, though, are still just in the talking stage. De La Hoya's marketing team is in discussions with McDonald's Corp. and Vons Cos., a Los Angeles-area chain of grocery stores. And PepsiCo Inc. sounds interested. "He's spunky, energetic, and has a positive image," says a spokesman. "He's certainly somebody Pepsi would want to be associated with."

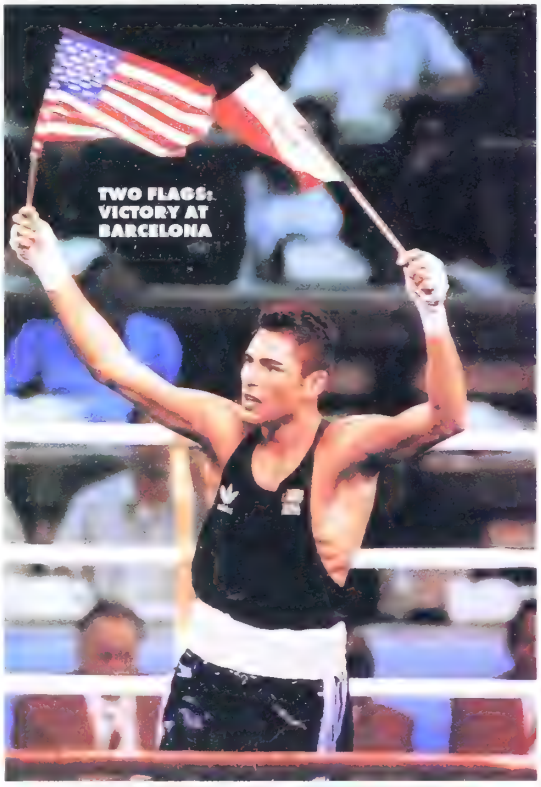
Many other advertisers, though, wouldn't go one round with any boxer but George Foreman, who makes an estimated $1 million a year from endorsing the likes of Frito-Lay and Texaco. Mike Tyson's rape trial soured many adv ers on all boxers. Even if a fighter model citizen, one good uppercut ruin his marketability. Coca-Cola Co Burger King Corp. signed former he weight champ Evander Holyfield to term contracts shortly before he los title to Riddick Bowe in November

Nor are fight enthusiasts every vertiser's cup of tea. "Boxing fans a the low end of the scale of purcha power," says David Burns of B Sports Celebrity Service Inc. in Chi

GOLDEN CHANCE. None of that stop car De La Hoya from dreaming grew up admiring Sugar Ray Leo who parlayed his own Olympic medal into several title belts and to lar deals with Seven-Up Co. and advertisers. "He's one of the few made so much money and investe says De La Hoya. "He was smart."

If De La Hoya wants to be as s as Leonard, it would help to be as g His team is carefully fattening up pro record, signing him to fight a ries of opponents likely to test him not defeat him. With a few more v ries under his belt, says Mittleman La Hoya can figure on a fight early year for the title currently held b ther Tony Lopez or Miguel Gonz depending on which sanctioning b you believe. After that, who kn Maybe he'll K. O. the couch potato

By Becky M. Johnson in Los An



TWO FLAGS: VICTORY AT BARCELONA

RESUME: OSCAR DE LA HOYA

BORN: Feb. 4, 1973, East Los Angeles

HEIGHT: 5 feet, 11 inches

WEIGHT: 135 pounds

CLASS: Lightweight

AMATEUR RECORD: 225-5, including gold medals the 1990 Goodwill Games a the 1992 Olympics. 153 KO

PRO RECORD: 3–0

ENDORSEMENTS: Southern California Chevrol Dealers, KNBC-TV, B.U.M. Equipment sportswear

PROSPECTS: Von's supermarkets, McDonald's, Pepsi, more

DATA: BUSINESS WEEK

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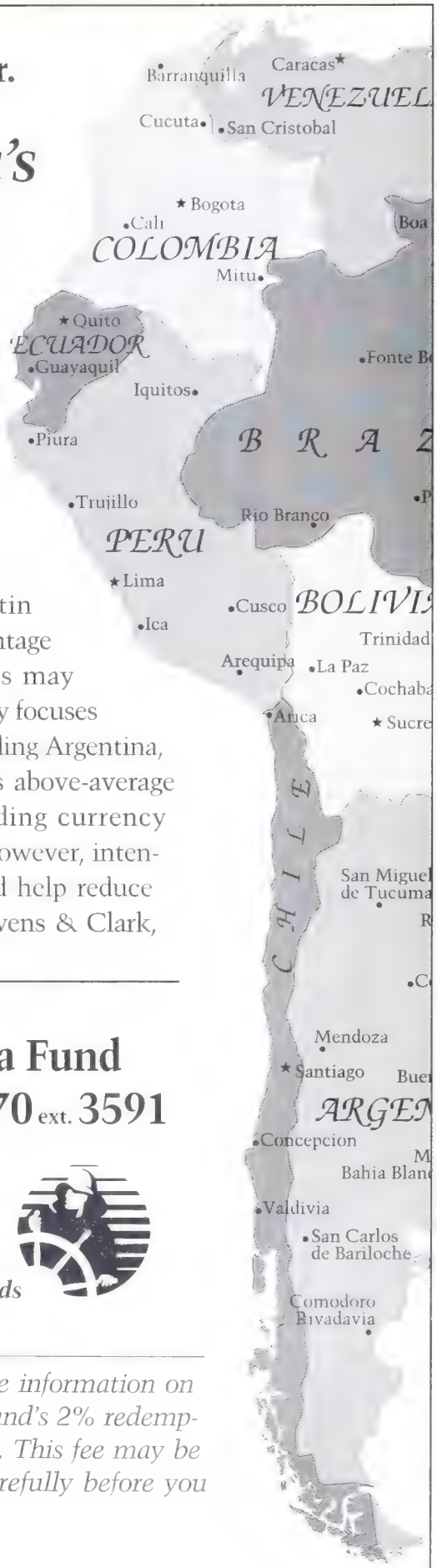

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EDITED BY AMY DUNKIN

Health

EAT NINE CLOVES OF GARLIC, AND CALL ME IN THE MORNING

"Let food be your medicine and medicine be your food," said Hippocrates in 400 B.C. That prescription is increasingly apt today. With reports coming fast and furiously about the healthful benefits of certain foods, a shopping list can read like a pharmacopoeia. Broccoli and brussels sprouts have won new respect as potent cancer-fighters. Eating garlic cloves might alienate your loved ones, but could also protect your heart and boost your ability to fight infections. And the soybean, a staple of Asian diets, contains hormone-regulating compounds that may help prevent breast cancer.

Doctors have long recommended a diet rich in vegetables and fruits for the vitamins and minerals they contain. Citrus fruits, with their vitamin C, and calcium-rich leafy green vegetables are just two examples. Foods high in dietary fiber and low in fat, such as beans and oat bran, are staples for many people hoping to reduce their risk of heart disease and some cancers. But the latest research on foods is going beyond these generally accepted—and well-studied—benefits of good nutrition.

NO SURPRISE. Now, scientists are looking at so-called phytochemicals—active compounds that occur in fruits, vegetables, grains, and herbs, to see what benefits they might have in preventing everything from cancer to cataracts to depression. "We are exposing the healing powers of food," says Herbert Pierson, former director of the National Cancer Institute's Designer Foods program.

Chemicals in plants are there for a reason, says James Duke, an economic botanist with the Agriculture Dept. They usually protect against pests or offer some other survival value. So it's not surprising that they can be potent medicines. In much of the world, herbal remedies are the first line of defense against disease. And 25% of modern pharmaceuticals are derived in some way from plants—the heart medicine digitalis and the cancer drugs vincristine and taxol being a few well-known examples.

What's new is the idea that these potent compounds could also offer health benefits before people get sick, saving both lives and health-care dollars. Pierson envisions re up versions of common f such as cereal, V-8 juice frozen entrées, that co extra doses of beneficial pounds. As a consultan Woodinville, Wash., Piers now helping food and companies incorporate pr ing phytochemicals and nutrients into their prod He says that Campbell S Kellogg, Procter & Ga and others are al working on such ucts—albeit secretly

CLEAR WINNERS. B eager as these co nies are to exploit promise of phytoch cals, the field is st its infancy, says Dr phen L. De Felice, of the Foundation f novation in Medi which is supporte donations from ind and other sou That's because large-scale clinical testing the health fits of food have done. They're exper costing up to $200 lion each, and since tochemicals aren't entable, companies loath to fork over funding. The re "You have a little here, a little there, but no whelming evide says De Felice. Eve there are some that epidemiologica dence and small h trials point to as winners.

Garlic is one. In cent study, people took daily doses of extract—equal to nine cloves—saw bad cholesterol l

nd were less likely to e blood clots. Garlic ontains antioxidants—unds that neutralize -causing agents in and seems to protect stomach cancer. Other s: Garlic acts as a natitibiotic, helping to beef nunity to colds and nfectious diseases. est way to take it, Pierson, is to look ed garlic extract as been altered to ate the odor.

USDA's Duke calls root, an extract 50 times sweeter ugar without pro- tooth decay, "a g giant" in the nu- arena. It protects breast cancer and y ulcers, he says, being pursued by companies that o use it as a food e.

lowly orange is r nutri-star. Be- ascorbic acid (vita-), the citrus fruit een found to con- dozen or more ial phytochemicals. include beta caro- also found in car- weet potatoes, and orange and yellow bles—which re- shows may help d off lung cancer, -called flavonoids, could help to re- ead from children's among other bene-

n addition, Michael professor of human on- at the University of sin Medical School in n, has found that *d*-lim- the major component nge-peel oil, protects ainst breast cancer.

D USES. Other promis- ods are perhaps less n in many of our diets. tea, which is a staple an, contains residues tannins (different from nins in red wine and eas) that may help to ncer. Much of the evi- or this comes from epi- ogical data: Green-tea rs in Japan have far rates of stomach cancer than people who don't consume the beverage. Soybeans contain genistein—a phytochemical that could affect estrogen levels in women, helping to protect against breast cancer. They're also rich in lecithin, a compound that shows promise in preventing or retarding alcoholic cirrhosis of the liver.

Although much of the research on foods and health concentrates on the Big Two—cancer and heart disease—scientists see myriad other uses for phytochemicals. Some derive from herbal remedies that have been used for centuries by hundreds of millions of people throughout the world. Ginger root, for example, is an effective antidote to motion sickness. In one study, half a teaspoon of ground ginger was more effective than the over-the-counter medication Dramamine in combating sea sickness. Peppermint oil and angostura bitters settle upset stomachs. Cranberry juice can prevent and treat urinary-tract infections, and active-culture yogurt helps women ward off yeast infections. The list goes on—Duke keeps a computer data base of hundreds of plant chemicals that have medicinal uses.

Although there has been little research into how foods affect the brain, preliminary studies show that this, too, is a fertile area. For example, it's common knowledge that when some people get depressed, they crave chocolate. "Well, bingo," says De Felice. "They found out that chocolate contains an antidepressant." Fish has been called a "brain food," and evidence suggests that it does in fact stimulate brain chemicals. Natural sedatives include the herb valerian and, possibly, decaffeinated green tea.

In the end, though, important questions remain about exactly which foods to eat and how much is needed to stave off serious illness. Some of the phytochemicals are beneficial only in amounts exceeding what can be consumed in a normal diet. For example, says Duke, Japanese studies confirmed that a compound found in tomatoes, GABA, fights high blood pressure. "But you have to drink a kilo a day of tomato juice to get that effect," he says.

JUICED UP. In addition, notes Paul La Chance, professor of food science at Rutgers University in New Jersey: "The amount of active compound in a food differs from breed to breed and depends on where the plant was grown." It also can change depending on how the food is processed—cooked in oil or water, high heat or low, crushed or left whole, etc.

That's where the concept of designer foods comes in—carrots bred to have 10 times more beta carotene than normal, orange juice with the equivalent of 10 glasses' worth of beneficial phytochemicals, or snack bars tailored to helping stave off cancer or cataracts. That vision is intriguing, but it faces formidable regulatory hurdles: "Right now, such products would be drugs, not foods," requiring the same kind of stringent testing that pharmaceuticals do, says Pierson.

In the interim, says La Chance, important improvements in health can be made by sticking to a simple rule of thumb: Eat a diet of two-thirds plant food to one-third animal food to ensure that you're getting enough beneficial phytochemicals and other nutrients. The value of this approach may not be a scientific certainty, but La Chance believes the evidence is compelling enough to make it worth the effort. "Hey—at this point," he ventures, "you have to make some educated guesses." *Naomi Freundlich*

A PHARMACY IN YOUR KITCHEN?

Researchers are looking at foods and natural substances to treat or prevent a range of illnesses. These are the hot ones:

Food	Illness
CHILI PEPPERS	Contain a compound called capsaicin that in cream form is used to treat arthritis pain
CARROTS	Like sweet potatoes and orange squash, they contain large amounts of beta carotene. The National Cancer Institute is studying this nutrient in the prevention of lung cancer
CRANBERRY JUICE	Helps cure urinary tract infections by raising the acidity of urine and thus killing bacteria
CRUCIFEROUS VEGETABLES	Broccoli, brussel sprouts, and cabbage harbor strong cancer-fighting substances, although the effect on humans is not clear
FISH OIL	High in omega 3 fatty acids that may prevent heart disease by lowering triglyceride levels in the blood
GARLIC	Can lower cholesterol and reduce blood clotting to ward off heart disease
GREEN TEA	Tests have shown that the tea residues, called tannins, suppress tumors in mice
LICORICE ROOT	Has prostaglandin inhibitors that may guard against cancer and ulcers; also may prevent tooth decay
SOYBEANS	Contain several promising compounds, including genistein, which may block tumor growth

DATA BUSINESS WEEK

Phoning

PUBLIC PHONES: GOODBYE TO THE RIP-OFF

Of all the irritations of business travel, one of the most offensive is trying to call from your hotel room and getting some off-brand long-distance carrier you know will overcharge you. When you try to dial your carrier's access code, no luck. You get a busy signal.

Your options are few. Most likely, you resign yourself to paying the puffed-up charges. You can also rush to the pay phone and call there. But it's inconvenient, and there's no guarantee that the pay phone isn't served by the same or another little-known carrier.

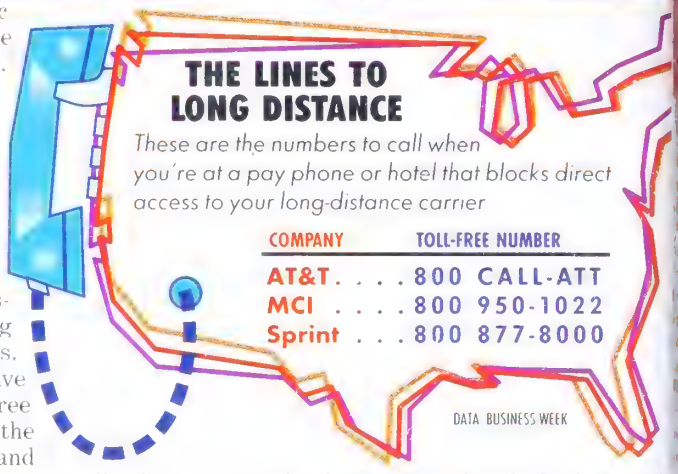
That's about to change. New rules by the Federal Communications Commission are forcing pay-phone operators and hotels, in addition to hospitals and other public facilities, to give callers access to the long-distance provider of their choice. The reforms result from numerous complaints by consumers of rate-gouging by so-called alternate operator services—small phone companies that buy time from the major long-distance carriers and contract to provide long-distance services to lodging and pay-phone companies. Some alternate services have been known to charge three to five times as much as the Big Three—AT&T, MCI, and Sprint. They force callers to use their services by blocking access to other carriers on certain phones.

By mid-March, all pay phones and a large majority of the phones in hotels and motels—AT&T estimates 75%, up from 30%—are expected to be unblocked. To get their carrier, callers will simply dial the usual access code: 10288 for AT&T, 10222 for MCI, and 10333 for Sprint.

Some hotels will continue to block you, since the FCC is giving them until 1997 to install the new technology. Here, callers can use special 800 numbers set up by the majors as part of these new rules to bypass blocking and tie callers into their carriers. (No rule prevents hotels from assessing a separate local-call charge for dialing into your long-distance service.)

One last reminder: All public phones must have a sign identifying the long-distance provider, usually a standup card at hotels and a tag on coin phones. But this rule is more honored in the breach. Few hotels bother with cards, and the signs at phones are often out of d carriers may change frequ ly. The only way to tell w carrier the phone uses is listen for the identifica message after you've di your number.

If it's not the company want, hang up, then dial carrier's access code or 800 number. It's the su way of avoiding unwa surprises when you open phone bill at the end of month. *E.S.*



Smart Money

YOU BET YOUR ASSETS: THE NEW REFINANCING GAME

People who bought a house or apartment when prices were superheated face two kinds of agony now. Their property's value has sunk, so if they have to sell they'll eat a loss. And if they want to take advantage of lower interest rates by refinancing, they'll have to cough up another downpayment—on top of points and closing costs—to qualify for a cheaper loan. That's because most banks, especially those that sell their mortgages in the secondary market, will lend only 80% of a property's appraised value.

Now, lenders and mortgage brokers are finding creative ways to help the strapped borrower. Some banks will negotiate selectively with customers who have other assets that could secure the debt, from jumbo certificates of deposit to stock portfolios. But think carefully before pledging financial assets as collateral, because once you do, they're strictly off-limits.

Say you bought a $350,000 home in 1987, making a 20% downpayment of $70,000, and your loan balance is around $270,000. If your property now appraises at $262,500—a 25% drop, not uncommon in California or the Northeast—you would have to come up with $75,000 to meet the 80% loan-to-value requirement for a refinancing.

> Collateralizing is a novel approach—though a risky one

Or you could borrow the full $270,000 by pledging some assets to make up for your home's loss of value. For instance, with Merrill Lynch Credit Corp.'s new Mortgage 100 program, you borrow 100% of a property's appraised value, and instead of making a downpayment, you pledge securities worth 30% of the loan amount as collateral—in the above example, $81,000. Merrill manages the money until you pay down 25% of the mortgage.

LOCKED UP. The firm offers two kinds of mortgages under the program: a variable-rate type tied to prime (now about 6%) and a 30-year fixed-rate mortgage, currently about 8.5%, for jumbo loans over $203,000. Refin ing your $270,000 from 10 into Merrill's 8.5% jum would save you $5,414.48 interest in the first year.

For some borrowers, program may look ideal. don't sacrifice your inve ment return, as you woul you liquidated your assets a downpayment. You a save any capital-gains ta you would owe for selling preciated stocks or bonds

But pledging assets has drawbacks. If your portf is your safety net, or yo holding it for your kids' lege education, locking y investments up long-te could be risky.

Still, collateralizing ass is a novel approach to a f trating problem, and ot lenders may eventu launch programs like M rill's. Just make certain won't need to sell your st any time soon before de ing that such a plan is ri for you. *Joan Wa*

ex to Companies

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an improving economic
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investors, the stock mar-
ahead on heavy trading
he S&P 500 made new
did the Russell 2000 and
Cap indexes, measures of
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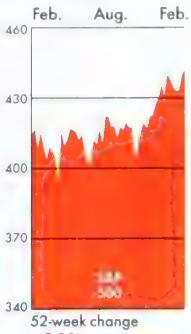
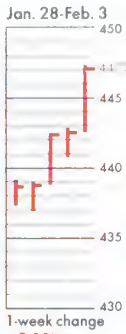
STOCKS

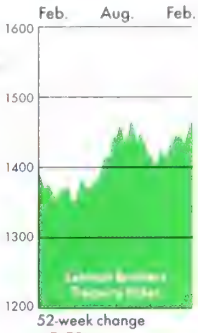


52-week change
+8.1%

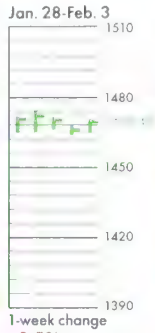


1-week change
+2.1%

BONDS

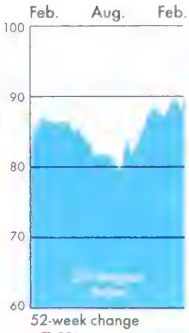


52-week change
+5.5%

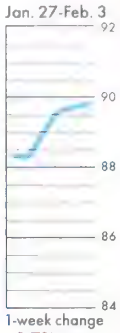


1-week change
+0.5%

THE DOLLAR



52-week change
+7.4%



1-week change
+1.7%

KET ANALYSIS

CKS	Latest	% change Week	52-week
ES INDUSTRIALS	3373.8	2.5	3.6
OMPANIES (S&P MidCap Index)	165.5	2.0	8.1
MPANIES (Russell 2000)	232.0	1.7	10.8
ANIES (Russell 3000)	256.8	2.0	9.0

N STOCKS	Latest	% change (local currency) Week	52-week
FINANCIAL TIMES 100)	2873.8	1.5	12.8
IKKEI INDEX)	17,222.0	4.3	−21.5
(TSE COMPOSITE)	3344.0	1.0	−7.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	2.98%	2.97%	3.93%
30-YEAR TREASURY BOND YIELD	7.21%	7.25%	7.73%
S&P 500 DIVIDEND YIELD	2.80%	2.81%	2.95%
S&P 500 PRICE/EARNINGS RATIO	22.0	21.0	24.4

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	424.4	423.7	Positive
Stocks above 26-week moving average	72.8%	71.7%	Neutral
Speculative sentiment: Put/call ratio	0.37	0.34	Neutral
Insider sentiment: Vickers sell/buy ratio	3.96	3.81r	Negative

STRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

EEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
NDUCTORS	18.0	60.9	INTEL	28.6	85.8	111 1/4
NE TOOLS	16.1	45.5	CINCINNATI MILACRON	21.5	37.4	19 3/4
AND MOTELS	13.9	44.3	HILTON HOTELS	14.7	13.7	48 7/8
OBILES	12.1	45.6	CHRYSLER	18.8	169.6	38 3/4
RAGE FIRMS	10.9	10.7	MERRILL LYNCH	15.0	18.6	67 7/8

EEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
CARE SERVICES	−12.4	−9.9	AMGEN	−16.5	−16.3	59
	−12.3	−26.1	SYNTEX	−14.5	−58.8	19 7/8
IFIED HEALTH CARE	−11.5	−20.6	ABBOTT LABORATORIES	−14.0	−18.2	26 1/8
CHAINS	−7.4	4.0	WALGREEN	−9.6	6.6	40 1/4
AL MANAGEMENT	−4.2	−28.7	NATIONAL MEDICAL ENTERPRISES	−15.0	−33.1	10 5/8

UAL FUNDS

MORNINGSTAR INC

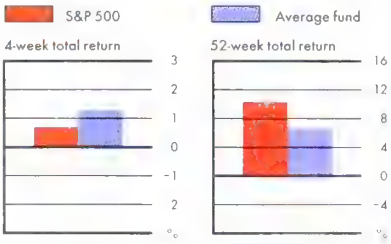
total return	%
ESSIVE ENVIRONMENTAL	11.3
IAN OCEANOGRAPHIC TECHNOLOGY	10.4
HUSON GROWTH	8.2

tal return	%
Y SELECT SAVINGS & LOAN	54.0
ANCOCK FREEDOM REGIONAL BANK B	47.4
Y SELECT REGIONAL BANKS	45.6

LAGGARDS

Four-week total return	%
MONITREND GOLD	−12.7
44 WALL STREET EQUITY	−12.6
MORAN EQUITY	−8.5

52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−54.9
UNITED SERVICES GOLD SHARES	−48.0
MONITREND GOLD	−41.0



TIVE PORTFOLIOS

DATA RESOURCES INC.

ounts
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$10,000
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Treasury bonds	U.S. stocks	Money market fund	Foreign stocks	Gold
$11,556	$10,918	$10,273	$9,634	$9,266
+0.13%	+1.11%	+0.05%	−0.53%	−0.38%

this page are as of market close Wednesday, Feb. 3, 1993, unless otherwise indicated. ps include S&P 500 companies only; performance and share prices are as of market close Feb. 2. Mutual fund returns are as of Jan. 29. Relative portfolios are valued as of Feb. 2. A more detailed explanation of this page is available on request r=revised

FREE TRADE, YES, BUT FAIRNESS COMES FIRST

Get ready for a tougher U. S. trade policy. Despite keeping relatively quiet on the issue during the campaign, President Clinton favors a strong, activist trade policy that doesn't shy away from government help to strategic industries. Moreover, Clinton's strategy to open markets abroad will include far more threats of retaliation than the Bush Administration mustered (page 57).

Indeed, there are already concrete signs of Clintonian combativeness. On Feb. 1, U. S. Trade Representative Mickey Kantor threatened to retaliate against the European Community's "Buy Europe" policy on telecommunications and electrical gear. Kantor proposed barring bids from EC companies on U. S. government utility and service contracts unless the EC ditched its restrictive buying rules. U. S. trade officials pointedly let it be known that Kantor picked a harsher course of action than his staff had recommended.

Meanwhile, Clinton will offer limited government help to level the playing field in some high-tech sectors where Japan and Europe have already been providing state funding, such as Europe's Airbus Industrie and Japan's electronics conglomerates. The appointment of Laura D'Andrea Tyson—an advocate of government intervention on behalf of industries deemed to be strategic—to head his Council of Economic Advisers is one clue to the emergence of "managed trade" as part of America's competitiveness arsenal. Another sign of the tougher policy is the appointment of Cray Research Inc. CEO John A. Rollwagen as Deputy Commerce Secretary. While at Cray, Rollwagen successfully lobbied the Bush White House to threaten Japan with sanctions after it failed to follow through on promises to buy U. S. supercomputers.

During the campaign, Clinton feared that criticism of trade practices in Europe and Japan would have made him vulnerable to simplistic charges of protectionism and Japan-bashing. Clinton should feel much freer now to follow a tougher, but still fair, policy. America does not need protectionism. But it does need a better deal in some markets.

HEALTH CARE NEEDS A NATIONAL BLUEPRINT

Does President Clinton have a fallback position if Congress won't act on health-care reform? Judge by his actions. He has put his wife, Hillary, in charge of the White House task force drafting a health-care overhaul package to send to Congress by May. At the same time, Clinton is giving the thumbs-up to governors who want to pursue reform on a state level. With more than a dozen states working on legislation to rein in skyrocketing medical costs and improve access to health care (page 39), Clinton's Feb. 1 decision to slash the red tape that stalls states' experiments with their medicaid programs clearly endorses grassroots activism on health.

That two-track approach should give businesses p Under current law, large employers who self-insure benefit plans are exempt from state insurance regul Governors want to end that exemption, however, ar that their plans for universal health coverage and insur purchasing cooperatives won't work unless all empl are involved. If health-care reform falters in Washi and the momentum shifts to the states, governors can a compelling case for repeal—and multistate employers find themselves running their benefits packages accordi as many as 50 different sets of rules.

One way or the other, health-care reform is coming. nesses that don't want Washington meddling with their efit plans should ask themselves whether they would r face reform in Tallahassee, Albany, Sacramento, ar points roundabout. They will quickly agree that the needs one basic prescription, uniform across the rep for health.

HARD CHOICES FOR EUROPE

Pity the European Community, for it suffers fron much change. A little over three years ago, the E Wall fell on Western Europe's tidy deliberation boosting its economic competitiveness through the cons tion of a single market. At first, the opening of the seemed to promise that Europe might even sidestep recession that the U. S. is just exiting. But political steps led to high German interest rates, the delinkage o European and American economic cycles, and now, a recession.

The turmoil makes it difficult for Europe to focus on radical a change has taken place in its economic and ge litical responsibilities (page 48). But it should not be fo ten that the Continent has made great strides in boostin competitiveness in key sectors such as autos and stee fact, massive restructuring costing hundreds of thousand jobs will likely prolong the downturn.

Even in recession, EC leaders must not give in to temptation to turn inward. Competitive currency devaluat have already split the EC, and some governments are sc back single-market reforms to protect favored indust Most critical, the EC must not restrict imports from Eas Europe. Freer trade is the best way to discipline Wes European industry and at the same time support demo ic reform in the East.

Rather than squandering their political capital tryin force a broad-scale monetary union that has become a p ly academic exercise, Europe's leaders should concentrat reforming the root causes of a Europe that is still living yond its means. Only a fundamental overhaul of Germa deficit-ridden budget will produce interest rates low en to kick-start growth. And only scaling back high real w and rewriting luxurious social programs all over Eu will lower costs, free up capital, and permit more targete vestment in key industries. Hard choices, but the choices for Europe at this historic crossroads.

Erling Kagge pulling his equipment sled across an ice ridge, photographed by expedition member Borge Ousland

It sounds simple enough: be the first to get to the North Pole under your own power.

Consider what that entails: no dogs to pull the sleds, no aircraft to drop provisions, and no mechanized transport.

Randby, Kagge, and Ousland.

Nevertheless, three Norwegians, Erling Kagge, Borge Ousland, and Geir Randby set out from Canada to achieve the impossible.

"It seemed impossible. But we had to try."

Erling Kagge

"The Arctic is a sea surrounded by continents," explains Kagge. Accordingly, their attempt to reach the North Pole had to be made when the sea was frozen. Many of the ice floes the team traversed were drifting south at up to 11 miles a day. "So, while trekking north, we were also sailing south."

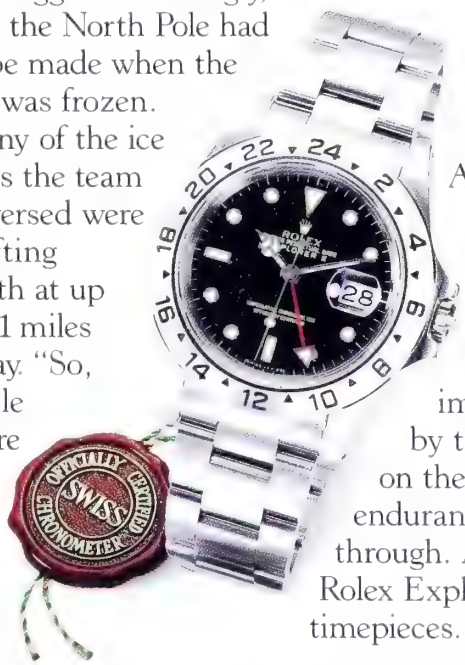
Expedition route to the North Pole

Traveling on skis, each man pulled 265 pounds of equipment on his sled. Everything they took was subjected to the same scrutiny; if it wasn't essential, it wasn't included.

Among the indispensable items were their Rolex timepieces. "Compasses are unreliable in the Arctic, so our watches had to be absolutely dependable. Each day at noon we checked our bearings with a ski pole. Where the shadow fell was due north," Kagge says. This was simple navigation, but effective.

They traveled 478 miles in temperatures as low as -65° F. Although Randby was injured and had to be evacuated, Kagge and Ousland reached the North Pole 58 days after starting this grueling expedition.

What to many seemed an impossible adventure was achieved by these polar explorers. They relied on their strength and endurance to see them through. And, on their Rolex Explorer II timepieces.



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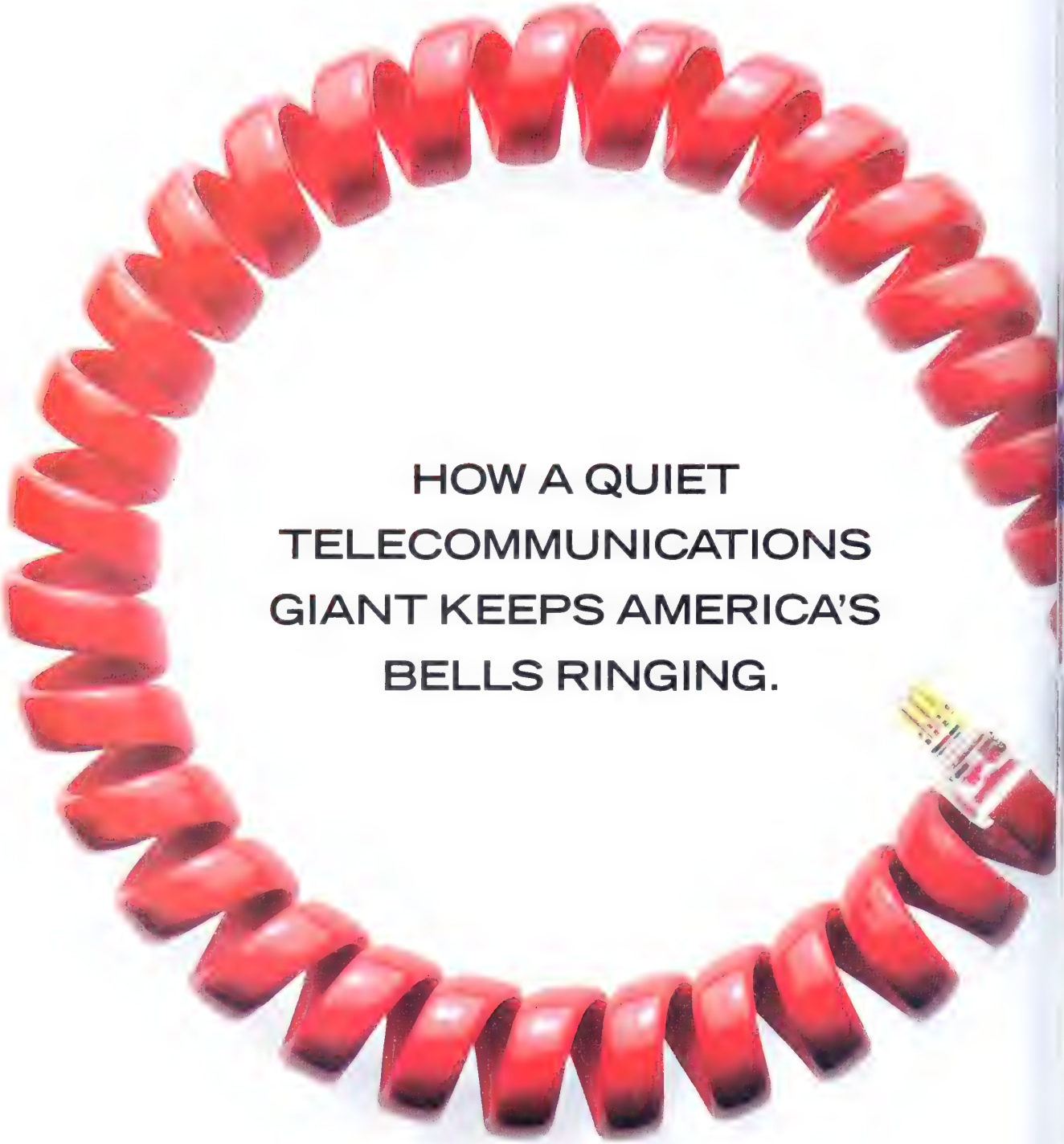

HOW A QUIET TELECOMMUNICATIONS GIANT KEEPS AMERICA'S BELLS RINGING.

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E ECONOMY IS GROWING, BUT EMPLOYMENT LAGS BADLY.

WILL CLINTON'S PLAN HELP OR HURT?

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LEHMAN BROTHERS

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NUMBER 3306

BusinessWeek

FEBRUARY 22, 19

COMMUTING, OR JUST POUNDING THE PAVEMENT? ALL ACROSS THE BUSINESS SPECTRUM, THE MOTTO IS: DO MORE WITH LESS

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It's a recovery without a heart. Profits and output are up, but employment is lagging. The imponderables of a cyclical economy are only part of the story. As labor costs climb and computerization gets cheaper, a hard truth is sinking in: Companies are not going to lose their deep reluctance to hire anytime soon

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Creeping costs mean fewer jobs

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Spending on work-force training efforts may pay off—eventually

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By fessing up and promising top creative talent, Leo Burnett held on to the hotly contested ad account

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Environmentalist Maurice Strong tries to clean up Ontario Hydro

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The brain drain at IBM, General Motors, and other ailing giants is making their problems worse

NO PLACE LIKE MINNEAPOLIS
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As a barometer, the industrial average isn't broad-based enough to take the market's pulse

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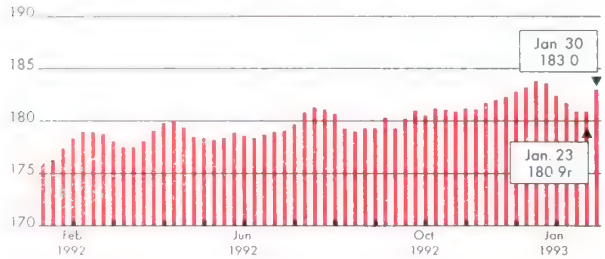
ss Week (ISSN 0007-7135) published weekly, except for one issue in January, by McGraw-Hill Inc. U. S. subscriber rate $44.95 per year. In Canada, one year: CDN $66. Single copies, $2.75; back issues, $5. ive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N. Y. 10020. Second-class postage paid at New York, N. Y., and at additional mailing offices. Postage paid at al, P. Q. Registration Number 9010. Title Reg. in U. S. Patent Office. **Postmaster:** Send address changes to BUSINESS WEEK, P. O. Box 430, Hightstown, N. J. 08520.

BusinessWeek Index

PRODUCTION

Change from last week: 1.2%
Change from last year: 2.6%

1967=100 (four-week moving average)

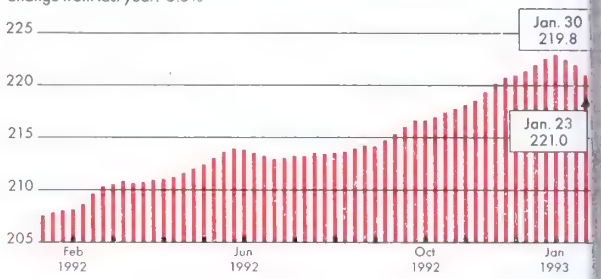


The production index increased strongly during the week ended Jan. 30. Seasonally adjusted output levels of autos, trucks, coal, lumber, and rail-freight traffic were up sharply, after the previous holiday week. Production of steel, electric power, paperboard, and paper also rose. Crude-oil refinery output declined. Before calculation of the four-week moving average, the index rose to 186.2, from 181.6. For the month of January, the index increased to 183, from 182.4 in December

BW production index copyright 1993 by McGraw Hill Inc

LEADING

Change from last week: −0.5%
Change from last year: 5.5%



The leading index edged lower during the week ended Jan. 30. Fur deterioration in the growth rates of M2 and real estate loans along with a l rise in the number of business failures offset higher stock prices, lower bond yi and faster growth in materials prices. Before calculation of the four-week mo average, the index dropped to 217.7, from 219.8. The index fell to 219.2 for of January, from 222.5 in December.

Leading index copyright 1993 by Center for International Business Cycle Research

PRODUCTION INDICATORS

	Latest week	Week ago	% Change year ago
STEEL (2/6) thous. of net tons	1,791	1,761#	4.5
AUTOS (2/6) units	120,404	131,401r#	12.9
TRUCKS (2/6) units	99,250	101,262r#	43.8
ELECTRIC POWER (2/6) millions of kilowatt-hours	58,911	59,575#	3.3
CRUDE-OIL REFINING (2/6) thous. of bbl./day	12,907	13,019#	2.4
COAL (1/30) thous. of net tons	21,152#	18,971	8.4
PAPERBOARD (1/30) thous. of tons	863.8#	854.1r	8.4
PAPER (1/30) thous. of tons	778.0#	770.0r	−0.9
LUMBER (1/30) millions of ft.	497.2#	457.9	−4.7
RAIL FREIGHT (1/30) billions of ton-miles	22.2#	21.0	7.2

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Paper Institute, WWPA[1], SFPA[2], Association of American Railroads

LEADING INDICATORS

	Latest week	Week ago	% Ch year
STOCK PRICES (2/5) S&P 500	446.15	439.10	
CORPORATE BOND YIELD, Aaa (2/5)	7.78%	7.84%	
INDUSTRIAL MATERIALS PRICES (2/5)	99.5	98.8	
BUSINESS FAILURES (1/29)	404	357	
REAL ESTATE LOANS (1/27) billions	$398.0	$401.2r	
MONEY SUPPLY, M2 (1/25) billions	$3,436.4	$3,441.6r	
INITIAL CLAIMS, UNEMPLOYMENT (1/23) thous.	365	363r	–

Sources: Standard & Poor's, Moody's, *Journal of Commerce* (index: 1980=100), Dun & street (failures of large companies), Federal Reserve Board, Labor Dept. CIBCR seasonally a data on business failures and real estate loans

FOREIGN EXCHANGE

	Latest week	Week ago	Year ago
JAPANESE YEN (2/10)	121	124	128
GERMAN MARK (2/10)	1.65	1.65	1.63
BRITISH POUND (2/10)	1.43	1.43	1.77
FRENCH FRANC (2/10)	5.59	5.59	5.54
CANADIAN DOLLAR (2/10)	1.27	1.27	1.19
SWISS FRANC (2/10)	1.53	1.53	1.46
MEXICAN PESO (2/10)[3]	3.076	3.080	3.081

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound expressed in dollars

MONTHLY ECONOMIC INDICATORS

	Latest month	Month ago	% Ch year
BUSINESS WEEK PRODUCTION INDEX (Jan.)	183.0	182.5r	
BUSINESS WEEK LEADING INDEX (Jan.)	219.9	222.5r	
EMPLOYMENT, CIVILIAN (Jan.) millions	118.1	118.3	
UNEMPLOYMENT RATE, CIVILIAN (Jan.)	7.1%	7.3%	

Sources: BW, CIBCR, BLS

PRICES

	Latest week	Week ago	% Change year ago
GOLD (2/10) $/troy oz.	329.850	328.200	−6.9
STEEL SCRAP (2/9) #1 heavy, $/ton	109.50	103.50	22.3
FOODSTUFFS (2/8) index, 1967=100	196.1	199.6	−5.2
COPPER (2/6) ¢/lb.	104.0	104.0	1.3
ALUMINUM (2/6) ¢/lb	55.5	56.1	−1.2
WHEAT (2/6) #2 hard, $/bu.	3.83	3.97	−18.0
COTTON (2/6) strict low middling 1-1/16 in., ¢/lb.	53.63	52.88	6.9

Sources: London Wednesday final setting, Chicago market, Commodity Research Bureau, Metals Week, Kansas City market, Memphis market

MONETARY INDICATORS

	Latest week	Week ago	% Ch year
MONEY SUPPLY, M1 (1/25)	$1,034.0	$1,033.4r	
BANKS' BUSINESS LOANS (1/27)	277.5	277.8	
FREE RESERVES (2/3)	1,189	994r	3
NONFINANCIAL COMMERCIAL PAPER (1/27)	147.7	148.0	1

Sources: Federal Reserve Board (in billions, except for free reserves, which are expressed i two-week period in millions)

MONEY MARKET RATES

	Latest week	Week ago	1
FEDERAL FUNDS (2/9)	2.90%	3.18%	3.9
PRIME (2/10)	6.00	6.00	6.5
COMMERCIAL PAPER 3-MONTH (2/9)	3.18	3.21	4.0
CERTIFICATES OF DEPOSIT 3-MONTH (2/10)	3.13	3.16	3.9
EURODOLLAR 3-MONTH (2/5)	3.18	3.18	4.0

Sources: Federal Reserve Board, First Boston

· Raw data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipm
· Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

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Readers Report

MANAGING AIDS: CAN CORPORATE AMERICA MEET THE CHALLENGE?

Having just read "Managing AIDS" (Cover Story, Feb. 1), I will attest to the accuracy of the problems described. I, too, have managed an employee infected with HIV. He died last summer after suffering terribly in his last months of life. In the end, his pain could not be relieved even with the strongest of painkillers.

Three years earlier, he and I went through the same kinds of problems faced by Jean and Frank. I found compassion for the human fate to be my most effective tool.

We both worked in a company afraid to confront the issues in a direct and effective manner. I pray that Corporate America learns to be brave, fast.

Mike Christian
Denver

While your article addressed many of the concerns and the difficulty of actually managing or navigating the turbulence associated with AIDS-related events in the workplace, you have also, inadvertently, contributed to the confusion about appropriate organizational responses. First, you recount how even a company as progressive as Digital Equipment Corp., with its AIDS office and with the considerable resources it expends, still experiences difficulties when an individual manager is confronted with the issue—and then you note that "AIDS is preventable through education, which is affordable.... A good video, if presented conscientiously, can make a big difference."

We need to understand that our business efforts must be two-pronged: AIDS prevention and AIDS management. The latter is a complex problem involving fears, emotions, legalities, economics, policies, public relations, community citizenship, and yes, efforts at promoting humaneness and compassion. It takes a formidable program to attack these issues, as you point out. A short video or a pamphlet is unlikely to help. They may even hurt, as more questions are raised than answered and no guidance or support is offered for day-to-day decision-making and behavior.

Treating "HIV-positive employees in the same manner as victims of other terminal illness" is often a code phrase for inaction. Yes, it may address the benefits issue, but not the management concerns raised in your story. Other terminal illnesses rarely elicit "panic," disruption, or wild rumors in our organizations. Nor do they engender the kind of agonizing fear and uncertainty on the part of their victims as to their relationships with co-workers, their sense of dignity, their support systems, and their

CORRECTIONS & CLARIFICATIONS

Because of a programming error at Morningstar Inc., the "Trend" column in last week's Mutual Fund Scoreboard (Feb. 15) reversed the funds' relative performance. The way to read the boxes, as printed: ☐ for the top quartile; ☐ for the second quartile; ☐ for the third quartile, and ■ for the bottom quartile. An empty box indicates no rating for that time period. Morningstar will provide a corrected list of the Trend column for readers who request it. Morningstar's address is 53 W. Jackson Blvd., Chicago, Ill. 60604. The toll-free telephone number is 800 876-5005. These corrections do not apply to the bond fund Scoreboard starting on page 101 of this issue.

Also, the story accompanying last week's Scoreboard incorrectly characterized the relative performance of the FPA Perennial Fund. Over the past five years, the fund was in the second quartile.

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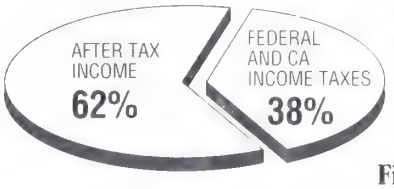

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[1] The Fund's 30-day yield as of 1/21/93 9.15%, 9.49% and 7.20% were the average annual returns for 1-year, 5-year and life of fund (commencement of operation 9/18/86) periods ended 12/31/92. The tax-equivalent yield is based on the highest 1993 combined effective federal and state income tax rate of 38.59%. Performance figures are historical and you may have a gain or loss when you sell your shares. [1]The portfolio's shares are neither guaranteed or insured. No guarantee can be made as to an insurer's ability to meet its commitment. Fidelity Distributors Corporation. CODE: BW/SCL/022293

status as members of our society
way AIDS does.

David M. He
Professor of Organizational Beha
Georgia Institute of Techno
Atl

The death and disability of worker
a result of AIDS will certainly le
our country's ability to successfully
pete on a global basis. Ironically, co
nies themselves are hindering our ab
to compete by maintaining the s
Reagan-Bush policy of ignoring the
crisis.

Now that valuable human resou
are literally wasting away in both
factory and the boardroom from
years of ignorance, the business se
seems to be suddenly upset that so
thing wasn't done about AIDS a
time ago. Whimpers and cries from b
nesses about the effect of AIDS are
result of a self-inflicted wound.

Michael Forrest Manc
Pho

My thoughts ranged from sympa
for Frank to distress at Jean's
ficulty in relating to her sales rep
pleasure at DEC's enlightened AIDS
gram. But I also found myself won
ing . . . where was the human-resou
department while Frank's and Je
lives were being turned inside out?

Until human-resources managers
cide to work shoulder to shoulder
line managers in the trenches, many
ganizations will be particularly
plexed about problems such as how
manage AIDS.

Edward Pow
Lumberton, N

I agree that better education is nee
in the workplace regarding AIDS
help stem the spread of the disease
to improve the quality of life for th
already afflicted. In this era of sca
medical resources, however, th
should be a higher priority placed
medical insurance for other long-te
chronic illnesses.

Although a small number of A
cases result from contaminated blood
from a single contact with an infec
sex partner, the vast majority can
attributed to promiscuous unprotec
homosexual activity and, to a lesser
tent, intravenous needle exchange.

There are situations, such as those
volving organic mental illness—sch
phrenia and manic depression, for exa
ple—that account for more than
million cases in the U. S. alone in wh
the victims are not responsible for th
plight. Yet those people can only
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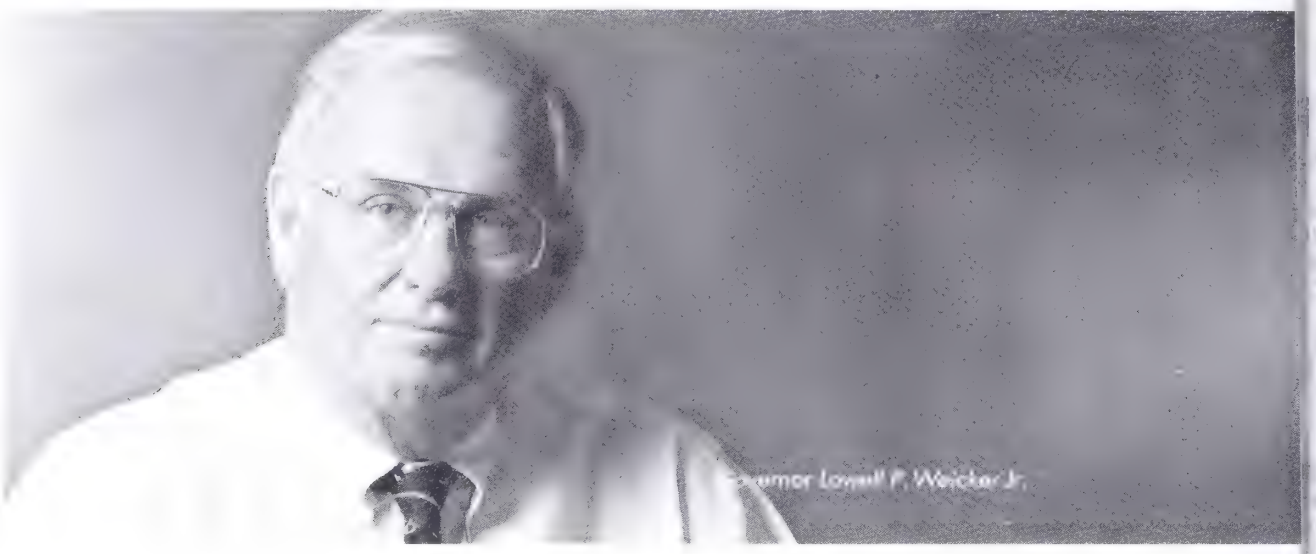

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The State That Thinks Like A Business.

eaders Report

rage for their health and disability ·fits. Let's correct that injustice . before giving any priority to AIDS rage.

Rita T. Buxbaum
Campbell, Calif.

ank Daloisio, Jean Langone, and ›EC are to be commended for shar- heir experiences in dealing with Da- ›'s AIDS.

ıving lost several friends to AIDS, I / how this dreaded disease affects only its victims but business asso- s, family, and friends as well. The e of helplessness when someone : utters the words, "I have AIDS," is nd description.

Joel A. Berger
New York

our Cover Story touched on so many complex issues as it poignant- d clearly defined yet another side of ›risis: the personalization of the ill- ' far-reaching employee, managerial, corporate issues.

hat is terrific about your article and t employee and corporate AIDS pro- ıs is that each helps to provide a idable professional platform for a ıse that is randomly scattered ıg the population—and therefore ng in cohesion or unity in its outcry.

Amanda Uhry
New York

:CTORS SHOULD HAVE A SIZABLE KE IN THEIR COMPANIES, TOO

ats off to Eastman Kodak, Xerox, and the others mentioned regarding ›anies requiring their top executives ıve a monetary investment in their ›any commensurate with their com- ation ("Now, a big job at Kodak ıs you'll buy a big stake," Top of News, Feb. 1).

vould like directors of these corpora- to have similar financial commit- :s. For many years, I have voted ıst any director who does not have ast one year's director's fees invest- ı the corporation. It doesn't make e for a director to have only $4,000 5,000 invested in the company, then ve annual fees of $30,000 to $35,000.

Jerome A. Schine
Temple Terrace, Fla.

RE MAY BE GOOD REASONS TAKING LAURA TYSON TO TASK

ıe assertions by Michael J. Mandel ›n the supposed shabby treatment of ·a Tyson by the economics profes- warrants further research ("Laura ›n's public mugging: Economists

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Readers Report

should be ashamed," Economics, Fe

The fundamental criticism le against Tyson is not her belief in aged trade. Rather, it is her lack o ereed research in high-quality econo journals that concerns many in the fession. A quick review of her rese output on a computerized data base cates no publications in top econo journals such as the *American Eco ic Review*. As for her views on int tional trade, they have not been acce by the profession because there is empirical evidence to back them up

Michael T.
Associate Professor, Finance
Cleveland State Unive
Cleve

DEFICIT CUTTING: DON'T TRUST CONGRESS TO DO THE RIGHT THI

Your editorial regarding an incr in the gasoline tax is well pressed, and no doubt most pe would be willing to "bite the bullet order to move on the deficit prob There are, however, two major p that you have overlooked.

Any time Congress raises additi revenue, by any means, that mone spent on new or enhanced program has never been used to reduce the cit. The same will apply to a new such as the gasoline tax.

The true way to reduce any defic by reducing spending so it does not ceed your current income. Why make the first order of deficit-reduc the complete implementation of al the government waste-savings as ca for in the Grace Commission re many years ago? Why look for com solutions to simple problems? Let's sensible things first before flirting Congress' inclination to spend other ple's money.

John M
West Redding, C

A gas tax would be a good pa solution, but not a "bold act" no quick deficit fix." Why not spread pain across all products? The concep a value added tax was prematurely missed by President Clinton as a "do tax." But it may be our only way ou the deficit mess, and it would help encourage savings, especially if it placed some other taxes on income.

Steven J. Abram
New Y

Letters to the Editor should be sent to Rea Report, Business Week, 1221 Avenue of the Ar cas, New York, N. Y. 10020. Fax: (212) 512-4 Telex: 12-7960, Intl. 4998204. All letters mus clude an address and daytime and evening phone numbers. We reserve the right to edit le for clarity and space.

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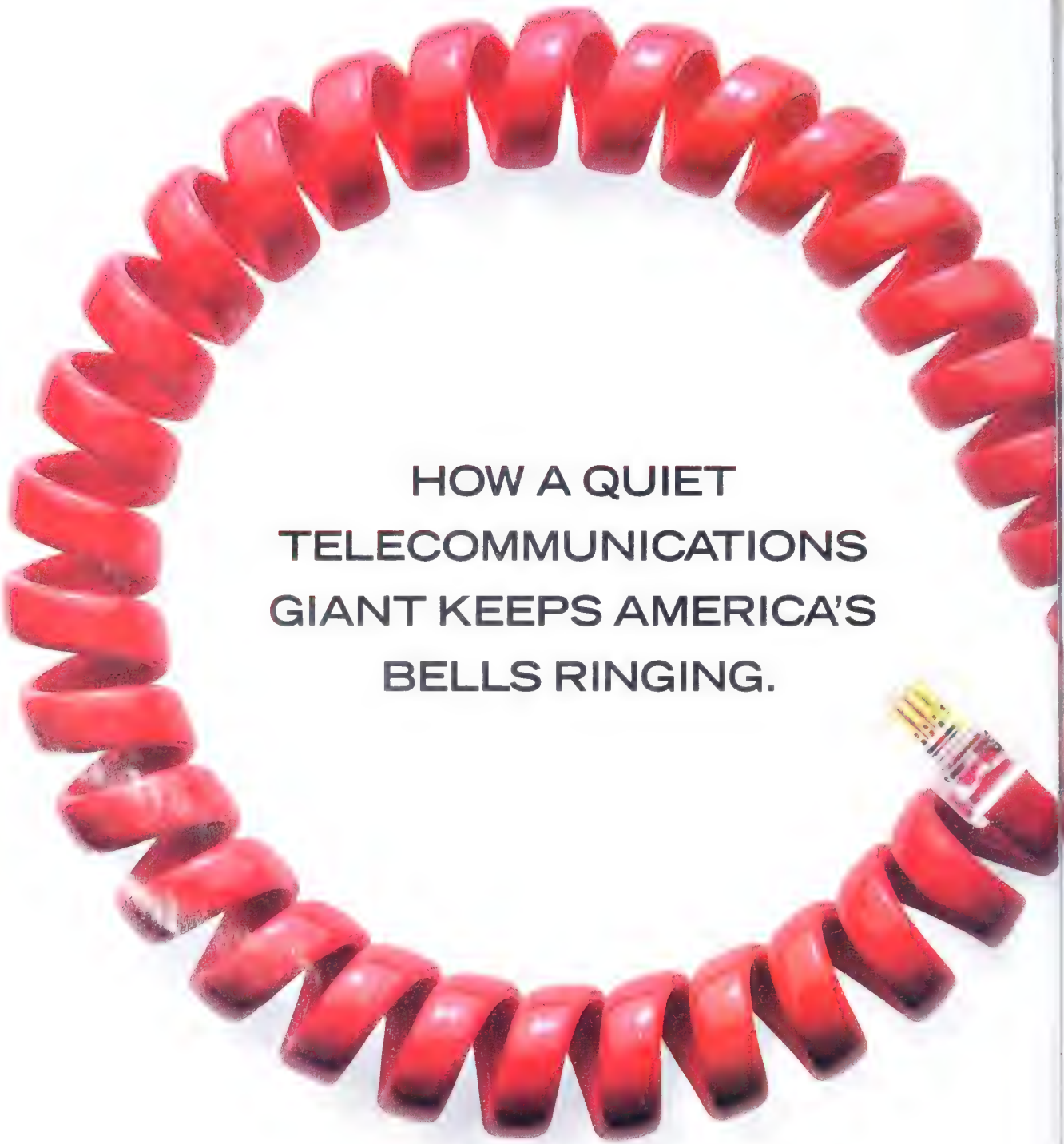

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READ ALL ABOUT IT! THE CORPORATE TAKEOVER OF AMERICA'S NEWSPAPERS
By James D. Squires
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HELLO SWEETHEART, GET ME ADVERTISING

James Squires admits it right up front. He made a serious mistake when he climbed into bed with the bad guys. Fortunately, he lived to tell about it.

Squires, most recently a media adviser to Ross Perot's Presidential campaign, is a longtime newspaper editor, chiefly with the *Chicago Tribune*. As a young, idealistic reporter starting out at *The Tennessean* in Nashville, he was stirred by such heroes as Joseph Pulitzer, who once said: "A newspaper should have no friends." But as time went on, Squires discovered that newspapers have and need lots of friends, especially advertisers. He also discovered that while Pulitzer was interested primarily in high-quality journalism, most owners wanted mainly to make money, at the expense, if necessary, of quality.

So Squires, who became editor of the *Tribune* in 1984, made a Faustian deal with Charles T. Brumback, then the *Tribune*'s chief financial officer, and a dogged cost-cutter. Brumback agreed not to be unduly harsh with Squires's editorial budget and not to seek to influence the paper's editorial policy. In return, Squires, violating the Chinese wall that is supposed to separate news from advertising, agreed to "get in bed with the advertising department." He made ad sales calls and produced promotional sections "containing complementary news and advertising information." In 1989, with the financial side ever less willing to live up to its side of the bargain, he quit. Of his collusion with Brumback, he says: "I can only offer the lamest of excuses, 'I really didn't know at the time what I was doing.'"

He does now. His *Read All Abou* while part memoir, is mostly an raged lament about how the Jos Pulitzers of the newspaper busi have been largely supplanted by a generation of corporate "bean count who have little use for public-ser values and goals, such as educating informing readers. This, to be sur not a wholly original revelation. Squires's years of consorting with enemy give his account weight, pas and insight.

Central to Squires's thesis is good newspapers tend to earn less bad ones because "good journalism more." At some point, additional sp ing on editorial content—another porter in Washington, for instance— duces declining returns on investm This didn't bother most of the old lishing dynasties—the Ochs/Sulzberg Knights, Chandlers, et al. But by mid-1980s, most such families had out to profit-obsessed media compa It's no accident, Squires says, that n ly all of today's handful of great ne papers—such as *The New York Ti* the *Los Angeles Times*, and *The W ington Post*—are still dominated by ily interests.

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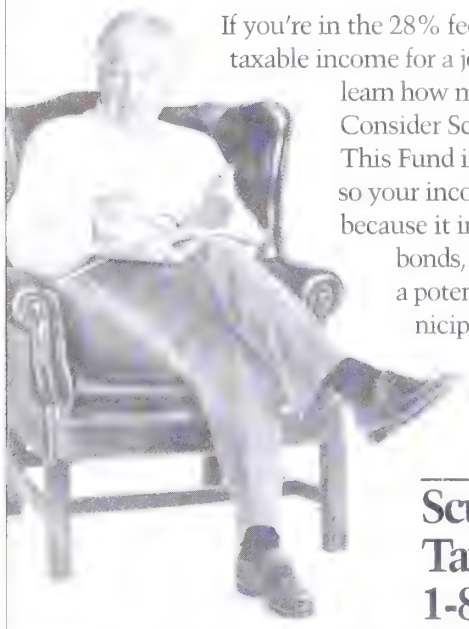

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ıewsroom professionals think read-
ıeed and the newsroom wants." Says
res: "Rather than educating and
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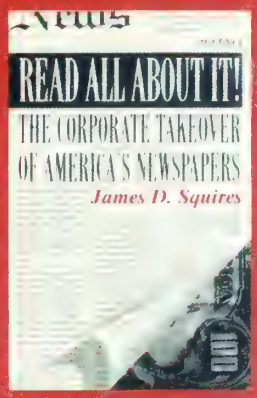
become attracting and entertaining
umers." Instead of reporting "what

Squires's thesis: The press once tried to educate readers. Now it tries to entertain consumers



is going on," it is reporting "information that will be most watched and read."

In sum, claims Squires, "the journalism establishment has in effect lost control over the content of its newspapers." What the news media do for a living "is no longer journalism at all."

Squires overstates his case. Few big nonfamily papers have abandoned their commitment to journalism as totally as he suggests. And he leaves some disquieting loose ends, especially one involving *The New York Times* and *The Wall Street Journal*. Those papers, and a few others, have been able to flourish while adhering to high standards. Squires says that's because their journalism "has already been precision-tuned to fit the perfect advertising target"—high-demography readers. But, he says, their readership base is shrinking, for quality journalism is "now appreciated only by an elite group of journalists and news junkies." That's debatable. But still, their present prosperity shows that excellence and marketing success can be compatible.

Read All About It!, further, isn't a great example of the lofty journalism Squires reveres. It's repetitive, rambling, and nearly bereft of documentation. Still, it merits attention from all journalists—and from their readers. If readers don't demand more from their newspapers, they probably deserve what the bean counters think they want.

BY CHRIS WELLES

Senior Editor Welles is a faithful reader of four daily newspapers.

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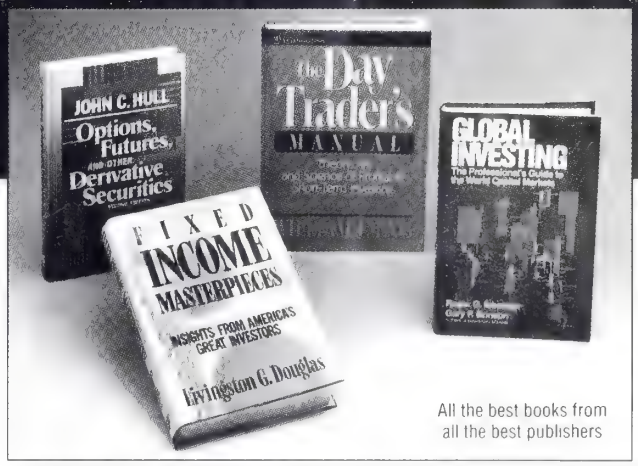

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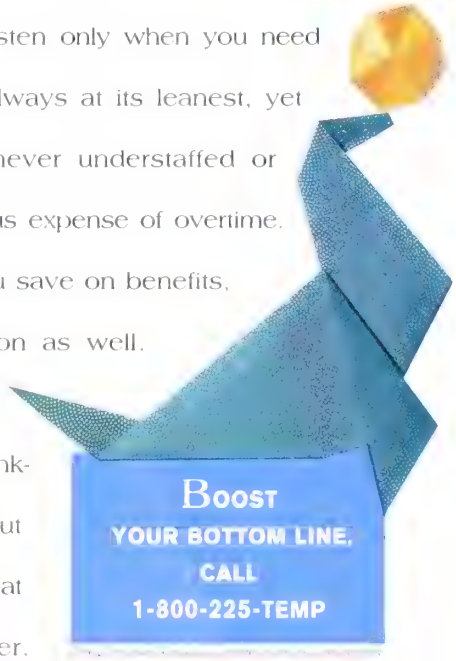

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S. BECKER, THE 1992 NOBEL
ATE, TEACHES AT THE UNIVERSITY
ICAGO AND IS A FELLOW OF
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The uproar over White House nominees for Attorney General who had employed illegal aliens has focused attention once again on unlawful entry of workers from poor countries. This is a perplexing issue not only for the U. S. but also for France, Germany, Italy, Japan, and other prosperous, democratic countries. I believe such immigration can be effectively discouraged by sizably increasing the number of legal immigrants and at the same time punishing more severely the illegal entrants or those who hire them.

Given the yawning gap between the incomes of rich and poor countries, the issue will not simply go away—as long as it remains so easy to enter prosperous countries illegally or on tourist visas. Workers are attracted to rich countries because the jobs available there are much better-paying than anything they can find in their homelands. And that's true even though they are usually employed as low-paid, unskilled labor in restaurants, households, agriculture, or, in a few cases, manufacturing industry.

Since illegal aliens mainly take jobs shunned by native workers, some economists oppose punishing them. Instead, they advocate what amounts to "benign neglect"—especially if the immigrants are not eligible for tax-supported benefits. But democracies find it politically impossible to deny them health care, education for their children, and other benefits paid for by the taxpayer. And when the number of illegals in a country gets large, political pressure often mounts to grant them amnesty, as happened in the 1980s in the U. S. I am troubled, too, by the morality of a policy that encourages violations of the law by employers and illegal immigrants, while entry is denied to millions who stoically wait their turn for the right to enter legally.

SELDOM PENALIZED. This is why democratic countries must take stronger steps than simply shipping illegal entrants who get caught back to where they came from. Entry cannot be reduced without effective punishment of either illegal aliens or their companies. Employers will not stop hiring illegal aliens on their own, because they do not believe they are doing anything wrong. The 1986 U. S. Immigration Control & Reform Act includes penalties for companies that hire illegal aliens, but households and very small businesses have seldom been penalized. Even though domestic help is believed to account for a considerable fraction of all off-the-books workers, Zoë Baird's household appears to be the first one fined.

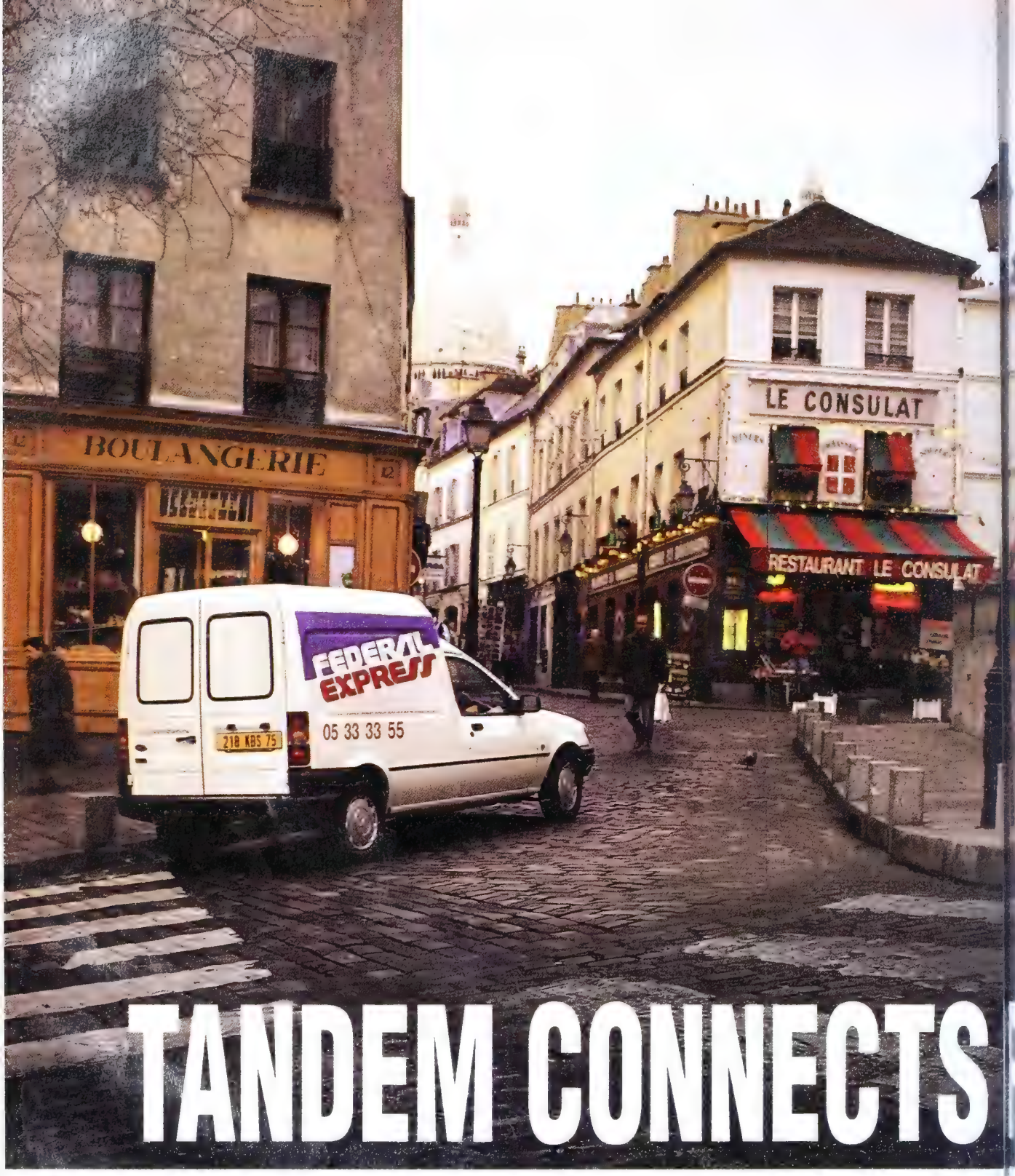
The reasons I have given for greater restrictions on illegal entrants should be distinguished from erroneous claims that they take jobs from native workers or that they are often exploited. Research has found that the employment prospects of native workers are only slightly reduced when immigrants enter a local labor market. And although some illegal workers are afraid to complain about bad treatment—because they may be deported—there isn't room for extensive exploitation in the highly competitive labor markets where most illegals find jobs. For example, those households and small companies that do not pay Social Security and unemployment-compensation taxes for illegal employees are forced by the competition for labor to pay higher wages than if these taxes were paid. In a study of apprehended illegal workers, economist Barry R. Chiswick of the University of Illinois at Chicago found that their average pay was in fact well above the minimum wage.

SANE ASYLUM. I am not advocating the erection of a wall against immigration. Instead, a more generous immigration policy should go hand in hand with greater punishment of illegal entrants, including fines and possibly jail terms. Greater legal immigration is not only desirable in its own right but would also reduce the number who seek to enter illegally. Not surprisingly, illegal entry generally expands when a country contracts the number of immigrants accepted.

France, Germany, and other countries are mistaken if they believe that they can reduce their immigration problem by cutting back on the right to political asylum or other legal means of entry. When legal immigration is curtailed, the number who sneak in or seek work after entering on a tourist visa will expand—unless a country is willing to punish effectively either the illegal entrants or the households and small companies that hire them.

I suggested in an earlier column that the most rational approach would be to sell the right to immigrate, but a less radical method of improving present policy and combating illegal immigration would be to allow a larger number of skilled and young people to enter legally. To prevent immigrants from taking advantage of government handouts, however, they should not be eligible for welfare, food stamps, government-financed health care, or certain other benefits until they become naturalized citizens. Politicians on both sides of the debate might well support this requirement, because it would not permanently exclude legal immigrants from taxpayer-financed benefits. Meanwhile, it would give them an incentive to become citizens as soon as they could.

MICHAEL L. ABRAMSON



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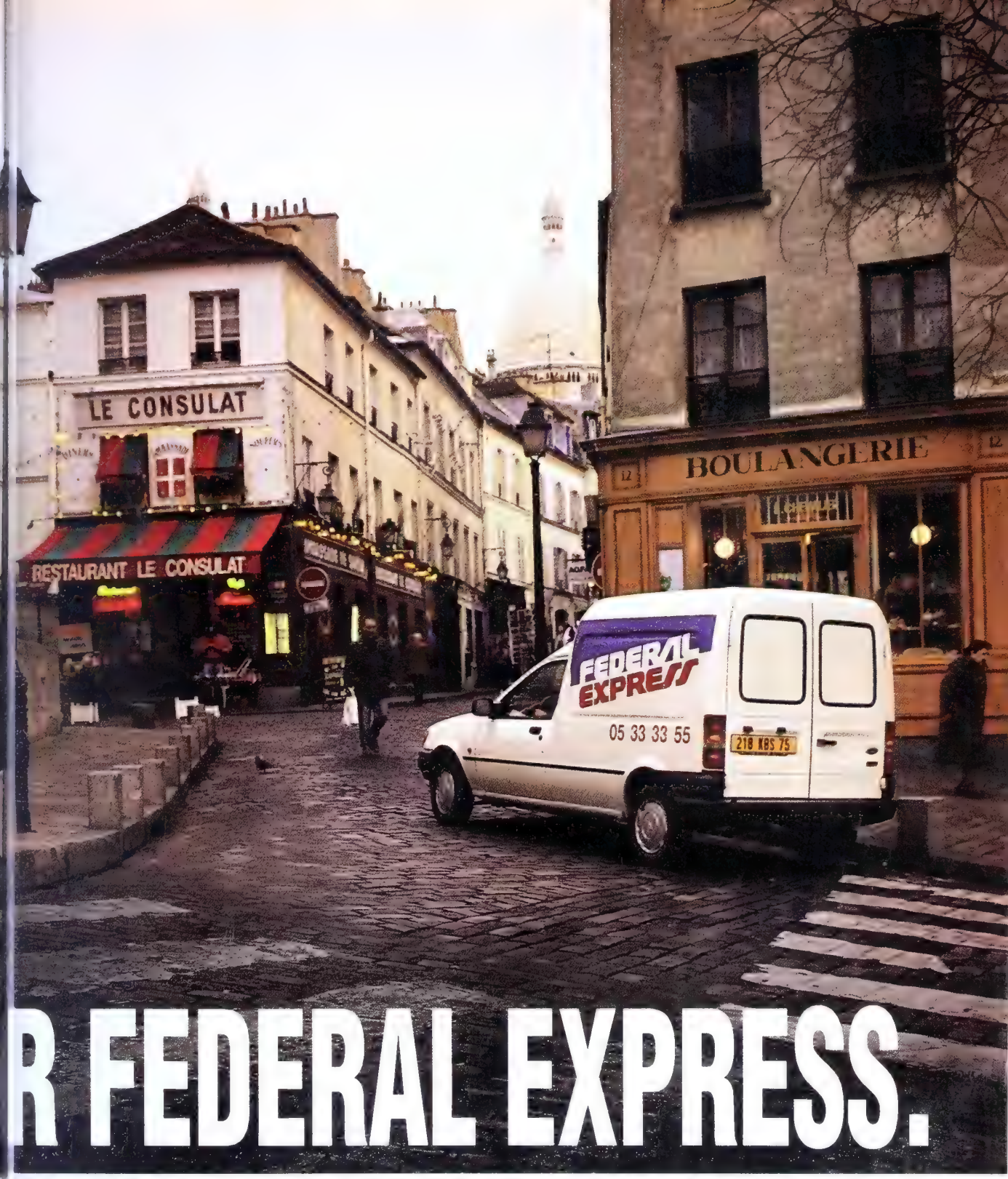

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BY GENE KORETZ

MORE PEOPLE AND FEWER JOBS WILL SLOW CALIFORNIA'S RECOVERY

According to David G. Shulman of Salomon Brothers Inc., California's economic outlook is clouded by a growing imbalance between population growth and job growth. He notes that in the 1970s, the population expanded by 3.6 million, while jobs rose by 2.9 million, and in the 1980s the state added 6.1 million people and 3 million jobs.

The problem is that the ratio of population growth to job growth has exploded in recent years. Since 1988, notes Shulman, the Golden State's population has jumped by 3.6 million, while employment has increased by only 600,000. And because population drives government spending on services, whereas jobs stimulate revenues, the imbalance is resulting in a structural deficit that is harming the state's long-term outlook.

"At the same time that needs are rising," says Shulman, "state and local governments are being forced to raise taxes and reduce services. The inevitable result is that California is becoming a less hospitable environment for the kind of business investment that is needed to pull it out of its slump."

AT LAST, FACTORIES MAY START REBUILDING THEIR STOCKS...

Aside from sluggish job growth, notes economic consultant Peter L. Bernstein, "the strangest aspect of the current recovery has been the somnolent state of inventory accumulation."

In the typical cyclical upswing, inventory-building galvanizes business. Having slowed production to reduce stocks during the downturn, manufacturers suddenly find that demand threatens to outpace supply. So they boost output—both to meet rising demand and to replenish the stocks that higher sales levels require. And since higher output normally entails higher employment, the adjustment sets off a chain of events that further stimulates the economy.

Past upswings illustrate the process. In the first seven quarters of the four previous recoveries, as the economy surged 4.8% a year on average, inventory accumulation accounted for 28% to 63% of the rise. But in the current recovery, growth has been a mere 2.2%, and inventories have hardly budged.

At least in the short term, that situation seems about to change. "Demand may finally be picking up enough steam," says Bernstein, "to spark a healthy rise in inventory accumulation."

M. Kathryn Eickhoff of Eickhoff Economics Inc. agrees. Not only have purchasing agents been reporting slower deliveries, she notes, but factory orders also surged at a 30% annual rate from September to December. And the ratio of manufacturers' inventories to their sales has plunged to an all-time low.

"A strong surge in final demand," observes Eickhoff, "has cleared the system of inventories and set the stage for a rebound fueled by a significant round of stock-building." As a result, she expects the economy to post at least 4% growth in the first quarter.

...BUT THE IMPACT ON GROWTH MAY BE MUTED

While inventory-building will almost surely add to economic activity in the next quarter or two, the critical question may still be whether it can provide the sustained impetus to rapid growth it provided in past upswings. In a study in the current *New England Economic Review*, economist Jane Sneddon Little of the Federal Reserve Bank of Boston suggests the answer is no.

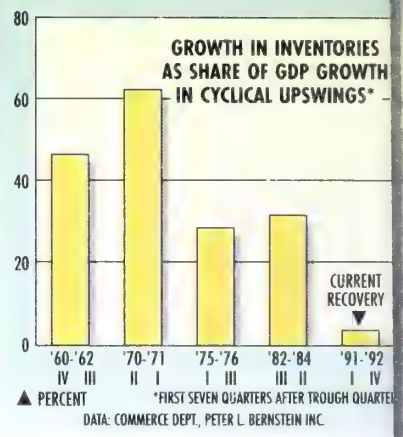
Little believes a structural change in the relationship between inventories and sales occurred in the 1980s. While retail inventories trended up slightly during the expansion, the inventory-sales ratio for the economy as a whole trended down, powered by a sharp drop in stocks of durable-goods manufacturers. Moreover, although inventories jumped when the recession hit, they did not continue to climb as they had in past downturns.

In the 1980s, notes Little, manufacturers and retailers began to invest heavily in information-processing equipment for use in inventory-management systems. Such approaches include just-in-time ordering of supplies by manufacturers and quick-response programs by retailers that employ bar codes to track inventories and exchange information with suppliers. Little's study shows a significant relationship between rising investment in information-processing equipment during the decade and declining inventory-sales ratios among both manufacturers and retailers of household durable goods.

Such findings, argues Little, imply that a continuing shift toward tighter, more efficient inventory-management has fostered a permanent reduction in the economy's inventory requirements. It has thus contributed both to the productivity revival that is becoming apparent and—since lower inventories require fewer bodies—to the sluggish employment growth that has been plaguing the economy in recent years.

The evidence, says the Boston economist, suggests that this process is still under way. Studies indicate, for example, that only 15% of the parts in the U. S. auto industry are delivered just in time, whereas in Japan the proportion is 45%. And major retailers such as F. A. O. Schwarz and Home Depot Inc. are still adjusting to new stock-management systems. "Although better inventory systems will benefit the economy in the long run," says Little, "in the short run, their increasing use is likely to continue to be a drag on growth."

INVENTORIES HAVEN'T BOOSTED THIS RECOVERY



THANKS TO CLINTON, THE IRS HAS BULGING POCKETS—FOR NOW

By all evidence, the so-called Clinton effect on revenues this year will be a humdinger. With many high earners apparently shifting income into 1992 to avoid higher rates in 1993, payments of estimated taxes have soared. According to Treasury data for January, nonwithheld tax payments (those not automatically withheld from paychecks) were up by $14.1 billion over January of last year, a 59% increase—after three years of minuscule January rises.

The apparent strength of the "Clinton effect" is inspiring a reduction in deficit projections. Economists at Morgan Stanley & Co., for example, have cut their estimate of fiscal 1993's federal budget shortfall from $330 to $305 billion.

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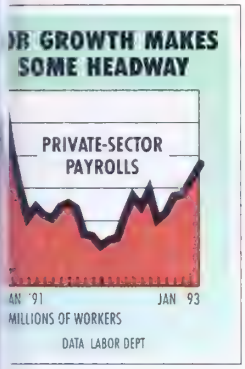
RUARY 22, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

VHY CONSUMERS ARE IDING TALLER IN THE SADDLE

After two quarters of galloping to the nearest cash register, are consumers riding for a fall? After all, the thumbprint of this expansion has been its ysmal lack of job growth (page 68). As a result, sluggish omes amid low savings and heavy debts have to limit ending. Right? Wait a minute. That's beginning to ind like last year's argument.



To be sure, consumer buying in the first half of 1993 is unlikely to contribute 75% of the growth in real gross domestic product, as it did in the second half of 1992. However, the strong spending numbers of late might well be telling us that households are in better financial shape than most economists believe. If so, any slowdown in consumer buying this quarter, and next, may be very sharp. That means overall economic growth y hold up surprisingly well.

Iere's why. The latest employment report shows that growth has picked up—at least a bit (chart). Also, ile real consumer spending jumped 4.3% last quarter, ertax income rose a not-too-shabby 3.8%. Although the ings rate is uncomfortably low, the value of house- d assets is on the rise again. And thanks to low inter- rates, households are unloading some of their IOUs, and cost of carrying the remaining debt is falling.

THE LABOR MARKETS LOOK A BIT FIRMER

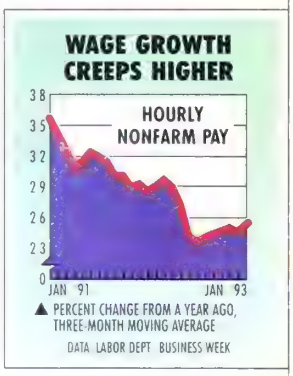
As always, the labor markets will call the tune for consumers. Right now, the music isn't rock 'n' roll, but it's not the blues, either. Private-sector payrolls in nonfarm ustries rose by 111,000 jobs in January, following a 000 increase in December. Private payrolls have now en for five consecutive months, something that hasn't pened in nearly three years.

And the pace of job growth has quickened a little. ring those five months, job gains averaged 69,000 per nth, up from a scant 22,000 per month during the pre- us five months. Moreover, the number of people work- part-time last month because of economic conditions pped sharply for the second consecutive month to the est level in 17 months.

Of course, recent job growth lags far behind the pace of st expansions. But a modest firming of labor-market iditions is unmistakable. The January numbers may a sign that monthly job growth is shifting up from the 50,000-to-100,000 into the 100,000-to-150,000 range. That pace is half of the historical average, but it will generate a little more income and let the jobless rate edge lower.

Unemployment dipped to 7.1% in January from 7.3% in December and from a peak of 7.7% hit back in June. Still, last month's rate might be understated, because of a huge drop in the labor force. Recent growth in employment and the labor force is not consistent with joblessness that low. So the unemployment rate could well inch back up, even as jobs continue to grow.

Some of the brightest signs of future hiring are coming from manufacturing—with the exception of defense. Factories added 34,000 workers in January, the largest monthly increase in almost three years, and the broadest hiring in nine months. Auto makers, which added 45,000 jobs, led the gain, but big declines in aircraft and defense industries limited the month's overall advance.



In addition, the factory workweek rose to 41.4 hours last month. That was the longest in more than 26 years, and weekly hours have exceeded that level only three times in the postwar era. That means factories have increased their output about as much as they can by stretching out their workweeks.

More factory hiring also seems likely because of better demand. The backlog of unfilled orders rose in December for the second time in the past three months, after shrinking for 13 consecutive months.

Also, factory inventories fell 0.6% in December, the fourth drop in a row. Since August, stock levels are down 1.7%, while shipments are up 5.8%. As a result, the ratio of inventories to shipments in December fell to the lowest level in the data's 35-year history. Clearly, inventory rebuilding will spur output gains in coming months.

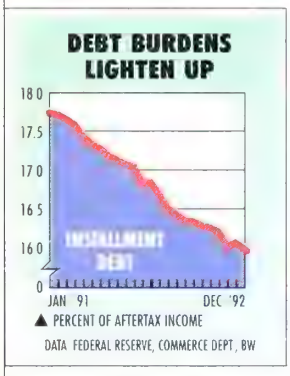
HOUSEHOLD FINANCES ARE ON THE MEND

At the same time that the labor markets look a little better, households are showing signs that their finances may be improving as well. One reason is because wage growth finally is beginning to edge up after a 3½-year slowdown (chart). Nonfarm pay rose by 0.5% last month, to $10.74 an hour. Wage growth stood at 2.7% in the year ended in January, after hitting a five-year low of 2.2% last June.

Personal income for January, to be released on Mar. 1,

may not look as healthy because the December data were lifted by farm subsidies and bonuses paid in the auto and securities industries. The absence of those special factors likely dragged down income last month.

Some of that loss, though, was offset by the 0.5% rise in weekly pay in January—which benefited a broader range of households than did the yearend subsidies and bonuses. And these fatter paychecks are why consumers continued to shop at a lively pace in January—and into early February, according to a survey of department stores done by the *Johnson Redbook Service*.



Households' better financial footing is also evident in the continued upturn in the housing market (page 42). The Mortgage Bankers Assn. reports that its index of mortgage applications to buy a house jumped 28% to a record high in the week ended Jan. 29. More consumers seem to feel secure enough about their jobs and incomes to buy a home.

In addition, the National Association of Realtors reports that home values are rising in 98 of the 125 metropolitan areas surveyed. That boosts personal wealth since a home is most consumers' chief financial asset. Gains in both the stock and bond markets are also lifting consumers' feeling of prosperity.

Consumers are also whittling down their liabilities. Many households reduced their mortgage payments during the record wave of refinancings last year. And more homeowners are taking the plunge this quarter. The mortgage bankers' index of refinancings has risen for five consecutive weeks. And HSH Associates reports that some lenders, in an effort to rekindle another round of refinancings, have begun offering interest rates as low as 7.25% on a 15-year fixed loan, the mortgage often used in refinancings.

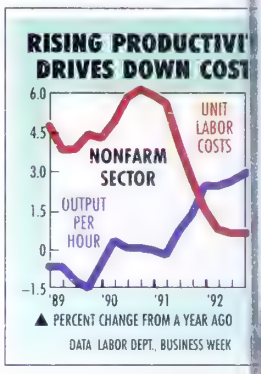
Households have gotten a better handle on their oth IOUs, as well. Installment debt rose by a modest $2.5 b lion in December. And installment credit as a percenta of aftertax income now stands at just 16%—the smalle debt burden in 7½ years (chart).

Moreover, revolving debt rose a mere $346 million December, despite reports of heavy credit-card use duri the holidays. The small net rise in revolving debt sugge that consumers were using plastic for convenience a that households are still paying down their existing bi faithfully.

WHY THE BOTTOM LINE LOOKS BETTER

The key limiting factor on job growth and thus on consumers' ability to spenc has been Corporate America's push to c costs and lift productivity in response heightened domestic and international competition. (that score, companies are making rapid progress.

Nonfarm productivity, measured as output per hour, rose at an annual rate of 4% in the fourth quarter of 1992. And for the entire year, productivity posted the largest increase in two decades. Combined with the slowdown in wages and benefits, the year's growth in unit labor costs was the smallest in nearly three decades (chart). So despite weak pricing power, the slowdown in unit labor costs means wider profit margins.



As a result, corporations are getting into better fina cial shape a lot faster than households. But while the have taken longer, consumers also appear to have mac significant strides in cleaning up their balance sheet Coupled with even modest job growth, consumers' impro ing financial condition provides a solid foundation for co tinued gains in spending.

THE WEEK AHEAD

HOUSING STARTS

Wednesday, Feb. 17, 8:30 a.m.

Housing starts probably declined slightly to an annual rate of 1.29 million in January, from 1.3 million in December. That's suggested by a fall in construction employment last month. In addition, after two of the warmest winters on record, the seasonal factors may depress the adjusted data on homebuilding activity in the first quarter.

CONSUMER PRICE INDEX

Thursday, Feb. 18, 8:30 a.m.

Consumer prices probably rose a mild 0.2% in January, according to economists surveyed by MMS International, a division of McGraw-Hill Inc. Prices rose 0.1% in December, as the muted recovery continues to douse any inflationary pressures.

MERCHANDISE TRADE DEFICIT

Thursday, Feb. 18, 8:30 a.m.

The foreign trade deficit probably widened to about $8 billion in December. The trade gap in November was $7.6 billion. The MMS survey projects that exports, which dropped 2.8% in November, rebounded 1% at yearend. Imports, which fell in both October and November, are forecast to rise 1.5% in December. The upturn in U. S. demand means that import growth should pick up in coming months, even as American exports start to wane. As a result, the trade deficit should worsen in 1993.

INDUSTRIAL PRODUCTION

Thursday, Feb. 18, 9:15 a.m.

The MMS economists project that ou put at the nation's factories, mines, an utilities increased by a sturdy 0.5% i January. If so, that would be the fourt consecutive advance in production. Th January rise is suggested by a big i crease in the National Association Purchasing Management's index of i dustrial activity as well as gains in fact ry jobs and workweek last month. I December, industrial output increase by 0.4%. Capacity utilization rates fc all industry likely stood at 79.5% in Ja uary, up from 79.3% in December. Tha would be the highest operating rate i more than a year.

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POLLING FOR POLICY

HOW CLINTON USES WHIZ-BANG MARKETING TO MAKE DECISIONS

He was weaned on 1950s' television, playground of Madison Avenue hucksters. And his campaign team included a pair of Tinseltown pro- ers. As he neared victory, his advis- said he was "closing the sale" with American people. Small wonder, ı, that Bill Clinton, the nation's first y-boomer President, now sees him- as Salesman-in-Chief.

ure, Ronald Reagan was the Great ımunicator. And George Bush in- led a 10-person polling team in the ite House. But Clinton's devotion to tools of market research goes much her. Bush and Reagan d the techniques to ak public opinion once cies were in place—a ctice Clinton surely mimic. But this Presi- t also believes that the s can help him develop policies themselves.

hat's why, from sea to ıing sea, the Presi- t's team has spent the : month tapping into ıs groups and polls. y even sat Clinton n for a campaign-style n meeting. The Presi- t today seems to be as :h businessman as poli- :n. Listen to him: "The ›ayers of this country our customers."

o the media-aware, ton's operation looks .rt and savvy. "In Dale negie's book, *How To ı Friends and Influ- e People,* Carnegie , 'Just shut up and listen,'" notes :h Popcorn, a self-proclaimed futurist New York market researcher. "My ss is Bill read that book."

ow well will all this work? Clinton's t test comes on Feb. 17, when he ıs to use his State of the Union ad- ss to unveil a product of uncertain ıand he desperately wants the Ameri- public to buy: a new, improved eco- ıic plan including, yes, higher taxes. [ost of Clinton's plan is taken from campaign issues book, *Putting Peo- First.* But there's little doubt that White House is using its marketing s to smooth the plan's rough edges le it figures out how to sell the result he American people.

ake tax hikes, the ultimate hard sell. figure out how to make new taxes ıtable, the Clintonites listened to fo- groups and polls. The research told n that while the public was ready to sacrifice to cut the budget deficit, it was adamantly opposed to paying more unless the President and Congress dealt with wasteful federal spending.

That's no surprise to private marketers. "Our polls show that people would be willing to pay more taxes and that they understand the need for sacrifice," says Susan Hayward, a director at market researcher Yankelovich Partners. "What they won't accept is the fat cats and elite classes not making sacrifices." One result: Clinton on Feb. 9 revived his campaign pledge to trim White House staff by 25% and to cut back on limousines and other perks.

To package and sell his plans, Clinton has reassembled the team that helped change his image from Slick Willie to Mr. President

Then there's the thorny problem of going back on the campaign promise to cut the deficit without raising middle-class taxes. For help, Clinton again turned to market research. It told him voters wouldn't even consider tax increases unless the nation's wealthiest taxpayers and businesses were socked, too. That's one reason why Clinton now is mulling over a big hike in corporate taxes (page 36).

Then there's economic stimulus and job creation, a keystone of the campaign. The economy's strength may have eliminated the need for broad stimulus. Yet Clinton's advisers figure a jobs plan is a must for the package, partly because employment growth remains anemic and partly because the marketing of the package requires it (page 68). "Instituting a new policy is the same as offering a new product," says Linda Kaplan Thaler, senior vice-president at ad agency J. Walter Thompson. "When you market anything, you need to concentrate on the end benefit."

White House image makers are adamant that voters understand the concrete results of the economic plan. "This plan will be bold but real, without smoke and mirrors," says one adviser. He's borrowing a page from product-sales manuals. To sell an inherently dull item such as soap, marketers push its intangible qualities, such as how young it can make buyers feel. "With an intangible offering like an economic plan, you have to make it tangible," says Dean E. Headley, assistant professor of marketing at Wichita State University. "They have to translate this into jobs and taxes."

To get the message out, the Administration, having reassembled the same team that helped turn Slick Willie into Mr. President, is plotting a sales strategy using the latest in market segmentation and telecommunications. Clinton is modeling his plan on the Gipper's: He'll take his pitch to the public and count on voters to press lawmakers to sign on to economic change. "It's quite critical for him to go directly to the American people, and I think Congress will welcome that," says Peter Kim, a top strategist at J. Walter Thompson. "A lot of tough decisions have to be made, and if Congress felt that their constituencies understood that, I think you'd have greater courage in Congress."

Hence Clinton's Feb. 10 town meeting in suburban Detroit, which allowed the remote participation of audiences in three other cities. Judith Lerner, a New York market researcher who conducts focus groups, says Clinton has mastered some of the principles of "synectics." The process allows people to talk about a problem until they reach a solution they feel they "own." Says Lerner: "That's his way of bringing people into the process. That's very, very smart."

ONE MESSAGE. The White House also has enlisted the Democratic National Committee to help beat the drums. Using sophisticated fax machines that spew 150 notices at a time, the DNC can see that a "daily message" appears on the desks of thousands of key supporters first thing every morning. These opinion makers then can put out a unified message on television and before community groups. Radio stations can call a toll-free number to get broadcast "actualities" of political leaders praising the program.

Clinton is well aware that whiz-bang marketing can take him only so far. And he knows opinions expressed in town meetings and on talk shows often fail to represent broader public views. The biggest risk in all this is that even the best research sometimes comes up with a product no one wants. "There's a limit to the way you can really package," says J. Walter Thompson's Kim. "Every marketer knows that you can't really fool the consumer." The last thing Bill Clinton wants is for his economic plan to turn out like New Coke.

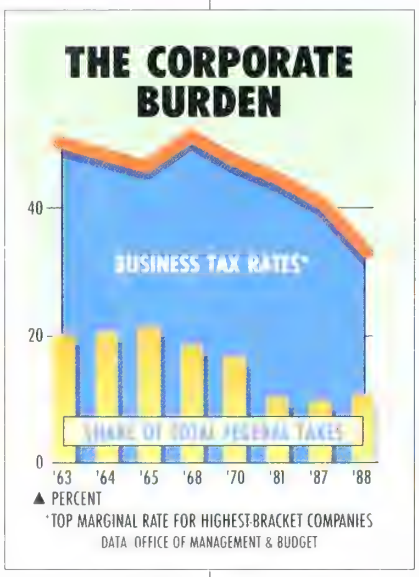
By Susan B. Garland and Richard S. Dunham in Washington and Laura Zinn in New York

Commentary/by Howard Gleckman

WOULD A FRIEND OF BUSINESS FLOAT A TAX PLAN LIKE THIS?

Throughout the Presidential campaign, Bill Clinton promised to help pump up the economy by restoring to business one of its favorite tax breaks, the investment tax credit (ITC). While many executives jumped at the chance to get the on-again, off-again credit back into the tax code, some worried they would end up paying a price for the supposed largess.

Now, the bill is about to come due. The leak from the White House is this: Business will get the credit, but the price will be a higher corporate tax rate. The idea is to push the top rate up from 34% to 36%—which would cost companies about $6 billion a year. Trouble is, that would hobble Clinton's efforts to achieve his No. 1 goal: creating jobs (page 68). And it would be a step toward tax "deform"—a return to the pre-1986 world of high rates and big loopholes.



Clintonites argue that both changes are needed. The credit, they say, would boost investment, while the corporate-rate increase would simply put business tax rates in line with those of individuals—which Clinton also plans to raise to 36%. Besides, he will need the rate hike to help bankroll the ITC.

WINNERS' HANDICAP. But socking it to business is hardly the way to get the growth and jobs Clinton wants. Successful businesses—those most likely to hire—would bear the full brunt of the rate increase. If they have to give the money to Uncle Sam, they can't create new jobs. Combine the investment credit with the rate hike, and Clinton's message to business is clear: Add equipment, not labor. Besides, it is questionable whether the credit will really generate economic growth.

Even business executives have their doubts. Paul O'Neill, chairman of Aluminum Co. of America, dismisses both the ITC and research and development tax credit as boondoggles that reward choices that would have been made anyway. "I've never, ever made a decision about an investment that was based on how much money the government was going to give me," he says.

To avoid the appearance of a giveaway and save money, Clinton wants to target the credit. One idea is to limit the write-off to certain equipment or businesses. Another is to restrict it to purchases over and above a company's past investment. But that's a tricky business. Congress tried it with the R&D credit in 1981 but made the rules so restrictive that few companies used the tax break. Clinton could end up sticking all business with the higher rate in exchange for a credit that helps practically nobody.

At best, the combined credit and rate hike will skew the tax code in favor of big, capital-intensive companies. Small business, software companies, and all labor-intensive outfits could lose. "Many profitable companies would get hurt by the higher rate and get little benefit of any kind from the investment credit," says Gillian M. Spooner, a partner at KPMG Peat Marwick.

Surely, business should share the pain of any credible deficit-reduction plan. And some executives admit they would be willing to do that. But an across-the-board rate hike is the wrong solution. The worst part of it: Clinton is reneging on tax reform. While not perfect, the 1986 tax act presupposed that business, not government, can best decide when and where to invest. Clinton made it clear during the campaign that he didn't share that view. Now, he seems intent on proving it.

Gleckman covers economic policy for BUSINESS WEEK from Washington.

TRADE

WHY DETROIT HIT THE BRAKES

Fearing a backlash, it now wants Clinton to press Japan on dumpi

It would have been the largest fro assault on the Japanese export j gernaut ever—an antidumping c costing millions in lawyers' fees and f ing entire forests to provide the ne sary documentation. And it could h brought stiff import duties down o wide range of Japanese vehicles. Detroit's Big Three preempted the le circus on Feb. 9, opting not to file a s charging all seven Japanese auto exp ers with unfairly selling cars in the U at artificially low prices.

Officially, Chrysler, Ford, and maintain the decision was made joi after a telephone conference am their chief executives. In fact, say in ers, Ford and Chrysler were willing proceed, but GM got cold feet. Ne leaks about the pending filing h drawn negative press reaction and s naled that the move could further t nish Detroit's image. General Mot Corp.'s CEO, John F. Smith Jr., worr openly that Detroit would be "crucifie fearing a repeat of the CEOs' embara ing public castigation after their p protection trade mission to Tokyo w President Bush last year. "What press thinks plays almost as big a r as what the data say," Smith told rep ers before the joint announcement.

JITTERS. Detroit's new plan: Turn o the dumping data already collected the Clinton Administration in hopes stiffening the spines of U. S. trade ne tiators in their dealings with Jap Meanwhile, the U. S. carmakers v gather evidence supporting their bel that Japan's auto industry routinely v lates U. S. antitrust laws through ext sive cross-ownership and self-dealing rangements. And in an enterprise su to warm Clinton's heart, auto mak will try to show that their Japanese co petitors avoid U. S. taxes by manipul ing costs and prices.

That's surely the sort of behavior t Administration prefers. In fact, Wa ington's jittery response to initial wo of a dumping complaint helped cool D troit's enthusiasm for persisting. U. Trade Representative Mickey Kant said privately that he would rather fo mulate a cohesive trade policy towa Japan than rely on the outcome of quasi-judicial procedure decided by t

ommerce Dept. and the U. S. International Trade Commission.

For their parts, Ford Motor Co. and rysler Corp., while wary of the potenl legal cost, were confident of their se. After all, in a complaint lodged last ar against Japanese minivans, the ommerce Dept. ruled that dumping argins, which reflect the discount from ir prices, ranged from 6.75% to 12.7%.

A gleeful Detroit prepared to go after Japanese products ranging from luxury sedans to sports cars, ready to claim that the underpricing of dozens of Japanese models was in the same range. But in a move that shocked the industry, the ITC offered no relief, ruling that Detroit's lucrative minivan sales had not been harmed by the dumping of a paltry $1.2 billion in Japanese vehicles, mostly from Mazda Motor Corp. and Toyota Motor Corp.

This time, with GM hemorrhaging money, U. S. industry lawyers were confident of proving harm throughout Detroit's product line. Instead, the carmakers are left hoping that the Administration will see fit to carry the ball.

By Paul Magnusson in Washington, with David Woodruff in Detroit

ADE

SEMBLING GAS TANKS IN MEXICO: U.S. AUTO-PARTS MAKERS ARE PROJECTED LOSERS

A NOOSE AROUND NAFTA

new trade report is provoking both sides and could prolong debate

It seems bland enough. But for a study intended to calm passions around the North American Free ade Agreement, the International ade Commission's new assessment of e accord's impact is providing critics th plenty of new ammunition.

The report, released on Feb. 4, conides that NAFTA will prove a mild boon the U. S. economy, slightly boosting ports to Mexico and creating a net in of 35,000 to 93,500 U. S. jobs by 95. But the gain masks projections at putting NAFTA into effect also will use American companies to shed as any as 170,000 jobs.

GIONS OF LOSERS. There's more bad ws buried in the study. While the uthwestern states along the Mexican rder will boom, the report says, the idwest, South, and West could suffer the short run. And these estimates ay understate the dislocations. "The ay free trade benefits countries is rough disruption," notes Peter G. Mor, an economist at the University of Maine. "NAFTA will impose more significant adjustments than all these models are showing."

That's why NAFTA faces a struggle for survival when Congress takes up the agreement and its side accords this summer. The legions of potential losers—U. S. manufacturers of auto parts, furniture, and household glass; sugar, peanut, and citrus growers; and seafood and vegetable producers—are intent on redressing their grievances. "We're sure feeling abused," says Peter S. Walters, group vice-president at Guardian Industries Corp. The flat glass made by his Northville (Mich.) company has officially been designated a "loser" by the ITC report.

Critics, including Walters, plan to make their case against NAFTA by pointing to a questionable series of static assumptions and omissions in the report. The ITC, for instance, doesn't deal with the impact of exchange rates on trade flows. If Mexico devalues the peso after NAFTA becomes law, as some experts predict, the ITC's projections of wages in Mexico may be too high. More companies than the ITC anticipated could set up shop south of the border, and that could produce more short-term pain for U. S. workers.

Other assumptions about Mexico's growth may be too rosy. The commission also presumed Mexico's economic reforms will continue apace, thanks to foreign investment. But foreign investors, noting continuing resistance in the U. S. to the agreement, are increasingly skittish about pouring more money into the country. That investment is critical if the Mexican economy is to expand fast enough to suck in U. S. exports and create jobs north of the border.

DELAY. NAFTA supporters are worried that the report could prolong a debate they had hoped was just about over. The Clinton Administration isn't easing their jitters. Trade officials acknowledge that some delay in the passage of NAFTA—and side agreements on labor rights, the environment, and other issues—may be inevitable.

Indeed, the Administration doesn't plan to take advantage of its "fast-track" authority to push the side agreements through without amendments. That authority expires in June, and NAFTA supporters worry that the pact could be nibbled to death by amendments attached to the side accords. "Who knows what other glitches are coming along?" asks Gary C. Hufbauer, a NAFTA supporter and senior fellow at the Institute for International Economics. "There's growing concern this may drag out too long."

The Administration remains confident it will meet the Jan. 1, 1994, deadline for wrapping up NAFTA. The timing is crucial to the Mexicans: By the end of the year, the ruling Institutional Revolutionary Party (PRI) will have to select a successor to President Carlos Salinas de Gortari. The new PRI leader will need NAFTA in place to persuade voters that the pain of Salinas' economic-reform program will have a payoff.

To pull all this off, the White House will need to pay more attention to NAFTA than it has so far. Clinton must convince critics that for the country as a whole, NAFTA has more to offer than to fear.

By Douglas Harbrecht in Washington, with Geri Smith in Mexico City

KEITH DANNEMILLER/SABA

PRODUCT LIABILITY

GM'S PEARCE: HE CHALLENGED NBC'S SIMULATED CRASHES—AND NBC APOLOGIZED

NOW, THE COURT OF PUBLIC OPINION HAS GM WORRIED

A $105 million legal judgment may pale in comparison with hurt sales

It wasn't enough that an Atlanta jury on Feb. 4 ruled that General Motors Corp. owed the family of Shannon C. Moseley $4.24 million. The sum was to compensate for the teenager's death when his pickup truck erupted in flames after a drunk driver broadsided it. Attorney James E. Butler also wanted to send GM a message to fix the sidesaddle gas tanks that the jury ruled had contributed to Moseley's death. How about $20 for each of the nearly 5 million suspect 1973-87 GM pickups still in use? The jury agreed, awarding another $101 million in punitive damages. GM says it will appeal.

GM faces more trials over its pickup trucks in the months ahead—and not just in court. While the huge award could be reduced, few of the some 100 pending cases over the gas tanks are likely to be settled, as most were in the past. The National Highway Traffic Safety Administration is investigating whether to order a recall. Consumer groups are demanding one.

DEFECTOR. GM's biggest case will be tried in the court of public opinion, with customers in the jury box. The stakes are huge. Last year, GM sold nearly 600,000 full-size pickups, with a profit of $4,000 to $5,000 apiece, says Furman Selz Inc. analyst Maryann N. Keller. Until now, pickup owners have been among the most brand-loyal. Could that change? "The legal costs, whatever they might be, are insignificant compared to the company's image and what it might mean to sales," says Keller.

The obvious open question is whether GM's 1973-87 pickup trucks are safe. The evidence is mixed. The Atlanta jury was swayed in part by testimony from Ronald E. Elwell, a former GM engineer. In prior cases, he had defended the design that placed the gas tanks outside the vehicle's heavy frame, leaving only the exterior sheet metal to protect them in a crash. Ford Motor Co. and Chrysler Corp. pickups, as well as the current, redesigned GM trucks, place the tanks inside the frame.

Elwell switched sides in the Moseley case, however, claiming that GM ld withheld data from early 1980s te that showed the gas tanks burst open side-impact collisions. GM depicted him a disgruntled former employee. The s tlement of a lawsuit over his dischar from GM bars Elwell from testifying future gas-tank cases. Still, lawyers c call on data from the insurance-indust funded Insurance Institute for Highw Safety. Those data show that in si impact crashes with occupant deat fires were about twice as likely with pickups as with those of its rivals.

'DELIBERATE DECEPTION.' An open-a shut case, right? On the road, howev trucks get into all sorts of wrecks, just side-impact ones. The Insurance stitute found that GM's pickups statis cally are neither safer nor more dang ous than Ford's or Chrysler's overall.

Nonetheless, on Dec. 8, 1992, t NHTSA—responding to prods from c sumer groups—opened a formal inve gation into whether the GM pickups ha a safety defect. GM won't say how mu a recall might cost, but analysts gue the cost at $300 million to $1 billic Since NHTSA recalls go back only eig years, any government-mandated rec would affect only trucks made aft 1985. No action is expected for month

Meantime, GM's pickups will stay the spotlight. The Center for Auto Saf ty, a group partly funded by trial la yers, on Feb. 9 launched a publici drive called "Campaign GM Firebomb to press for a recall. It claims there ha been 778 accidents in the GM trucks fro 1975 through 1990 where a fire occurr and at least one occupant was killed.

GM, on the other hand, launched a m dia blitz of its own. Four days after t Moseley verdict, it sued NBC Inc. In a elaborate demonstration, GM Executi Vice-President and General Counsel Ha ry J. Pearce claimed that a *Dateline* N broadcast on Nov. 17 misrepresented t trucks' safety by ri ging two simulate crashes. The next da *Dateline* anchor Jar Pauley apologized o the air and said NBC ha settled the case.

Settling owners' co cern about their truck might not be as eas GM seems insulate from a direct hit o new-truck sales becaus the problem is limite to older vehicles. Bu plunging used-truck va ues can slam new-truc reputations—and own ers' wallets. Even be fore the Moseley ve

GM TRUCKS ON TRIAL

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION	The agency is investigating whether fuel tanks on GM's pickup trucks met federal regulations when they were sold or later developed a defect. Recall is possible
PRODUCT LIABILITY SUITS	The score is GM 3, plaintiffs 4, with many out-of-court settlements on suits charging that a design defect caused death or injuries. But a recent $105.2 million verdict might make it tougher to settle
THE MEDIA	In a suit filed on Feb. 8, GM alleged that NBC's *Dateline* program misrepresented the trucks to 11 million viewers as unsafe by rigging its crash demonstrations. One day later, NBC apologized
PUBLIC OPINION	Publicity over the pickups might depress new-truck sales or the resale value of used trucks unless buyers conclude that GM's trucks are no worse than Ford's or Chrysler's. Lost sales could dwarf courtroom damages

DATA: BUSINESS WEEK

:t. class actions had been filed in lifornia, Texas, and Pennsylvania on half of owners of the 1973-87 models ıo say their resale values fell because the gas-tank issue.

Few truck buyers, though, seem wor-d. At the Feb. 6-9 annual dealers' con-ntion in New Orleans, two Pennsylva-ı dealers, while sympathizing with the ɔseleys, said that GM's policy on fixing peeling paint had their pickup customers more riled than any gas-tank fears.

Even so, Chevrolet is monitoring how many calls on its customer-service line deal with the question of safety and its 1973-87 pickups. Tally for the day after the Atlanta verdict: 114 calls out of 1,200. "We're greatly concerned that our customers understand that we care about their safety," says Roy S. Roberts, GMC Truck Div. general manager. Might that include a voluntary recall or some other goodwill gesture? "We'll do it if it's the right thing for the customer," Roberts says. Now that the Atlanta jury has sent its message, GM is waiting to hear what message the market sends.

By James B. Treece in Detroit, with Kathleen Kerwin in New Orleans and Catherine Yang in Washington

ADHUNTERS

AN TOM & GERRY FIND ı BIG CHEESE FOR BIG BLUE?

eadhunters Neff and Roche have the assignment of their dreams

Already, people in the business are calling it "The Tom & Gerry Show." And it may rank as the ɔst controversial executive game hunt history: the search by headhunting's ɔ archrivals for IBM's next chief execu-e officer.

The plum assignment has headhunters uzz because it brings together the in-stry's two preeminent practitioners, :rard R. Roche, chairman of Heidrick Struggles, and Thomas J. Neff, presi-nt of Spencer Stuart & Associates. hen it comes to the top search assign-ents, Tom and Gerry frequently tussle th each other like the vintage cartoon aracters. Each has placed dozens of Os into major companies.

NCONSCIONABLE.' But the search for hn Akers' successor also is raising ebrows because IBM hired both head-nters expressly so that they could ach executives from ch other's clients. Re-uiters generally are und by an "off-limits" licy that prevents them ɔm stealing the execu-es they place. They're ;o supposed to refrain ɔm raiding a client com-ny for two years after mpletion of a search.

By hiring the two big ıns, IBM bought itself oader coverage of the arketplace. Neff now can ntact Roche's recruits. d Roche can touch base th the candidates off-lim-to Neff. That prospect s some competitors cry-g foul. "It's unconsciona-," says search consul-ıt William R. Wilkinson. There's also sniping ɔm rivals who claim that ither headhunter has ough knowhow in the computer field to pull off a successful search. They say that the duo's limited number of high-tech placements haven't exactly set the world on fire. Neff put General Electric Co.'s Richard Miller into an already troubled Wang Laboratories Inc. Three years later, the company headed into Chapter 11. Roche, meanwhile, placed GTE Corp.'s Thomas A. Vanderslice into Apollo Computer Corp. His lackluster performance led to the company's sale to Hewlett-Packard Co. five years later, in 1989.

ODD COUPLE. Of course, placing executives into floundering companies means the odds of success seldom run in favor of the candidate. Indeed, IBM's willingness to even consider an outsider is a sign of deep tumult. "Only a couple of years ago, no one would have dreamed that IBM would ever use a search firm to find a new chief executive," says Richard M. Ferry, president of Korn/Ferry International. "It's like the wall coming down in Berlin."

Well, not quite. But it is surprising that two of the industry's most formidable egos find themselves in this unlikely duet. Roche, 61, is a flashy, fun-loving extrovert who has been hunting heads for nearly three decades. Neff, 55, is a cool, buttoned-down MBA who could easily be mistaken for an IBMer himself. In the business for 19 years, Neff hasn't minded raiding IBM for good talent, even tapping Allen J. Krowe, a Big Blue executive vice-president, for the job of Texaco Inc.'s CFO a few years ago.

Both Roche and Neff, gagged by IBM from commenting on the search, boast Rolodexes that most anyone in the headhunting business would die for. In one high-tech win, Roche wooed John Sculley to Apple Computer Inc. He also lured Lawrence A. Bossidy to AlliedSignal Inc. and Stephen M. Wolf to UAL Corp., United Airlines' parent. He recently was dragged into the American Express Co. debacle, and spent considerable time looking for a successor for Chairman James D. Robinson III. While he searches for a new honcho for IBM, he's also sifting through candidates for the corner office at Westinghouse Electric Corp. As for Neff, he gets credit for luring Louis V. Gerstner Jr. to R.J. Reynolds, Michael H. Walsh to Tenneco, and David W. Johnson to Campbell Soup.

PLAIN PAPER. No other headhunters come close to doing so much high-profile work. In this assignment, however, each kingmaker will be under enormous competitive pressure to be the one person who comes up with the candidate. Indeed, many envious rivals wonder if the two even can work together. "I can't believe those two guys will walk hand in hand to the board with the same candidate," says Ferry. "Knowing the two of them, they'll have interesting challenges sharing the limelight." They've apparently made one gesture at collabora-

HANDICAPPING HEADHUNTERS' FAVORITES

Who will land the corner office at IBM? BUSINESS WEEK asked 15 leading corporate recruiters to pick their three top choices. Here's who ends up on the short list, in order of preference:

Rank		
1	Jack Welch	GENERAL ELECTRIC
2	John Sculley	APPLE COMPUTER
3	Lawrence Bossidy	ALLIEDSIGNAL
4	Louis Gerstner	RJR NABISCO
5	Paul Stern	EX-NORTHERN TELECOM

DATA: BUSINESS WEEK

TOM NEFF

GERARD ROCHE

(TOP TO BOTTOM) PHOTOGRAPHS BY THERESA VARGA (PHOTO INFO)

tion: Instead of using either firm's letterhead, they're communicating with candidates on plain, white bond paper.

A matchup between two rival firms is so rare that most observers believe the last time it occurred was in 1972, when Roche recruited a new president for CBS Inc. patriarch William Paley. After Roche delivered Arthur Taylor from International Paper Co., Paley decided he wanted another firm to run an independent reference check on the candidate. Paley hired Russell Reynolds Associates, which told Paley they could find a better man. Paley, however, went ahead and hired Taylor. Roche still bristles at the idea that Reynolds played a key role in the search.

All the fuss may be worth it—at least for Tom and Gerry. The two hired guns are being paid an estimated fixed fee of $400,000 to $500,000 each by IBM—a sum that makes this assignment one of the priciest ever. The follow-on business also is likely to be huge, since the search will generate vast publicity for both firms. Now, the Tom & Gerry Show has roughly 90 days to put their rivalry on ice—and produce the head.

By John A. Byrne in New York

SEMICONDUCTORS

INTEL: WHAT A TEASE —AND WHAT A STRATEGY

It's delaying the launch of its new Pentium processor. It can afford to

It was supposed to be top secret," says the president of one computer maker. But within days, the news was out: Intel Corp. was telling customers not to sell computers based on its long-awaited microprocessor, called Pentium, until mid-May. That adds two months to the three-month delay Intel announced last July. Investors, speculating about problems with the chip, drove Intel's stock down 3⅛, to 106⅛.

By Feb. 9, however, calm had returned, and the stock had rebounded. Intel's customers quickly confirmed that there are no technical or manufacturing woes behind Pentium's delay. The reason, instead, is a mutually advantageous behind-the-scenes pact: Personal-computer manufacturer Compaq Computer Corp., rivals assert, suggested the delay to Intel. The chipmaker agreed and delivered the mandate to other customers.

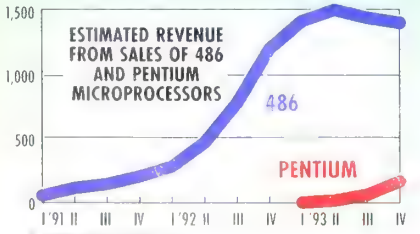
Intel admits "a big customer" initiated the move. Compaq won't confirm its role, but Senior Vice-President Doug Johns says: "We support" the delay. "We've had the best cooperation [with Intel]... in our 10-year history."

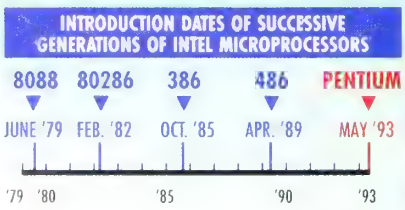
Not that Intel customers are complaining. Sales of their PCs based on Intel's current 486 generation of processors are booming. No one wants to break that momentum with a new product that runs at least twice as fast. "What we don't need is for consumers to decide to stop buying 486 machines," says George P. White, president of Corollary Inc., which sells computer circuit boards. More to the point, White believes many manufacturers aren't ready to deliver new machines, which require more sophisticated cooling systems and advanced memory capability. "We're hiding behind these slips," he says.

Some Wall Street analysts believe Intel also will gain by the delay. For now, Intel can sell as many 486 chips as it can make at about $400 apiece. Robertson, Stephens & Co. analyst Daniel L. Klesken estimates that Intel will price Pentium chips at $950 after their official debut in May. But for every new Pentium chip it makes, Intel could churn out up to a dozen more 486 microprocessors. By waiting until 486 revenues begin to drop, Klesken believes, Intel should add $112 million to 1993 profits.

Intel denies it was that clever. Senior Vice-President Paul S. Otellini says he plans to sell "hundreds of thousands" of Pentium chips in 1993. The delay, he says, "allows our customers time to stock their channels" with Pentium machines before they are released to the public. If that's true, Intel won't sell any more 486 chips than before the delay. Consumers simply will wait longer to see early Pentium PCs, likely to be priced near $6,000, on store shelves.

NO SWEAT. Either way, the delay poses little worry for Intel, which virtually owns the 486 market. Upstart Cyrix Corp. will sell just 800,000 of its 486 clones this year. And Advanced Micro Devices Inc. will not release its 486 clone until midyear. Even then, AMD will have only one plant capable of making the 486 clones—and that facility, analysts say, can produce less than 10% of the $1.4 billion worth of 486 chips Intel makes every quarter. "There's no great urgency to release the Pentium," notes AMD Vice-President Robert G. McConnell. Instead, Intel may be able to extend the traditional three-year cycle between chip releases (chart).





CHIPMAKING AT INTEL: 486s ARE EASIER

A bigger threat might come from other high-end chips that already match the Pentium's performance. This quarter, both Digital Equipment Corp. and Silicon Graphics Inc. will start selling new workstations and network servers based on their latest microprocessors, the Alpha AXP and the R4400, respectively.

But even that risk probably is minimal. DEC and Silicon Graphics have so far persuaded few other manufacturers to build machines based on their chips. "Everyone's asking for Pentium machines," says Martyn Ratcliffe, president of PC maker Zeos International Ltd. "No one's ever rung up and asked if we have Alpha chips." Maybe Intel should keep chillin' for another year.

By Richard Brandt in New York

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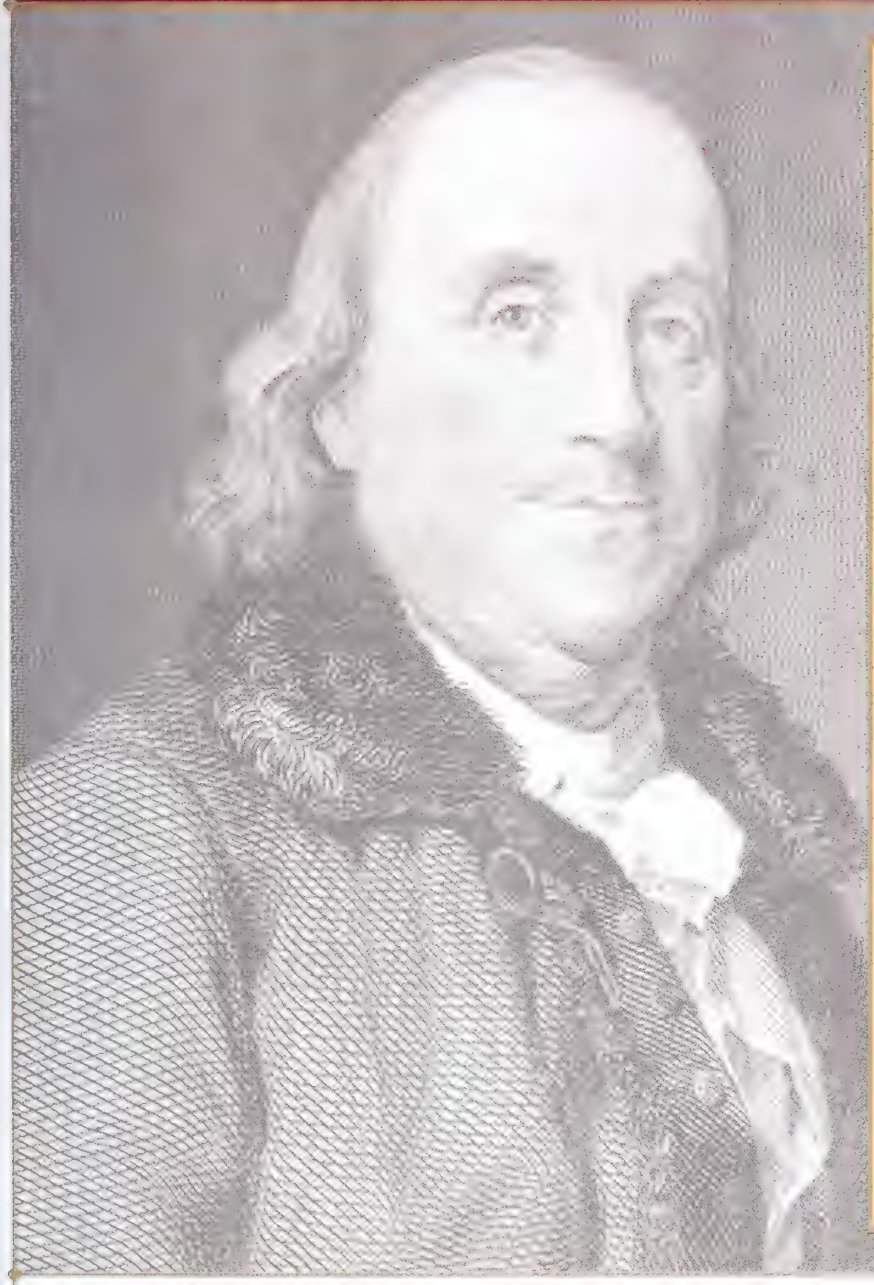

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REAL ESTATE

LEVAUX (LEFT) IN CAMBRIDGE, MASS.: "BUSIER THAN IT HAS BEEN SINCE THE GOOD OL' 1980s"

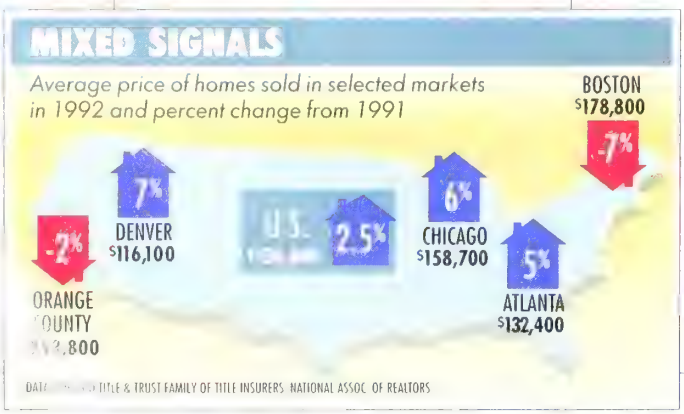
BELLS ARE RINGING IN MORE REAL ESTATE OFFICES

Along with the recovery, house sales are picking up—in all price ranges

Markets have their own special language. For house hunters Bob Leaper and Carolyn Judge, the real estate market in Cambridge, Mass., was screaming: "Buy!" Open houses suddenly were packed, with places fetching bids their first day on view—in a market that had seemed comatose until late last fall. "One house we saw had five bids on it right away, and it ended up going for more than the asking price," says Leaper. In late January, the couple jumped, making an offer of nearly $300,000 for a five-bedroom home. Within days they expect to lock in a 7.875% fixed-rate mortgage. "With interest rates the way they are, I didn't want to wait another day," Leaper says.

Across the country, baby boomers and others are slowly bringing real estate back to life. True, the market's lower reaches have been strong for more than a year. But now, with 30-year fixed-rate mortgages at 7.90%, nearing a 20-year low, and with a brightening economic picture, the market for move-up houses and high-end properties is starting to move, too. "In the first quarter, there's going to be a real jump for property prices," says Daryl Jesperson, senior vice-president of Re/Max International Inc., one of the nation's biggest brokers. "It's not that property will appreciate that fast, it's that the type of houses being sold is changing."

That's welcome relief in a market that saw only shallow, if steady, recovery during most of last year. Sales of existing homes jumped 9% in 1992, to nearly 3.5 million units, and housing starts shot up 18%, to 1.4 million units. But most of the action featured houses priced at $122,400 or less. And for the first time in 15 years, half of all the buyers were first-timers.



At last, better-heeled buyers are testing the waters. Many are still wary, especially since the recovery seems fragile. Unlike the recessions of the early 1980s, largely blue-collar affairs, the recent downturn ravaged white-collar ranks. Just as that group was revving up for a housing comeback, once-bedrock companies such as Sears Roebuck, IBM, and Boeing reignited the caution light with large-scale layoffs. "A lot of white-collar workers have been fired, and those that haven't been fired still think they might be," says John Pfister, vice-president for marketing and research at Chicago Title & Trust Co.

Indeed, some high-price markets are far from recovery. Take New York and Los Angeles (map). Prices there are still dropping—despite comebacks in the Big Apple's financial-services industry, and even though California's most dramatic defense cutbacks are probably over. In January, real estate agent Peter Whyte finally landed a buyer for a Beverly Hills house that listed in 1990 for $3 million. Sale price: $1.675 million. "We never in our wildest dreams thought it would go below $2 million," Whyte says.

CUPBOARD IS BARE. In most places, though, builders are scrambling to meet a new wave of high-end customers. "We're starting to gear ourselves up for the move-up buyers again," says Michael Ryan, president of Town & Country Homes, whose sales topped the Chicago market last year—only because it focused on building starter homes. "The baby boomers are starting to look for luxury homes." Even amid big corporate cuts, optimism can trickle through. The week Sears announced it was axing 50,000 jobs, Kimball Hill Inc. sold three homes at a development just a mile from Sears' Merchandise Group headquarters.

Smaller cities—from Atlanta to Denver to Spokane, Wash.—many of which missed out on the 1980s price boom, are leading the recovery this time. Denver's economic comeback and the building of its new airport helped push home-construction permits up 58% last year. They should climb a further 25% in 1993. "There's just no housing inventory," explains Tucker Hart Adams, chief economist at Central Banks of Colorado, a large housing lender. Adams counted just 9,682 houses on the market at yearend, down by 8% from 1991, in an area of million people.

Even in the nation's hardest-hit markets, anxiety is starting to ebb. In Boston, emboldened sellers are now refusing to accept contingencies on sales contracts, and

"The best overnight delivery service is UPS, no doubt."
— *Warehouse Manager*

"They do it for less. They don't goof up."
— *Operation Service Manager*

"They go out of their way to help us out. We appreciate that."
— *Warehouse Manager*

"They give you the best service for the best dollars."
— *Fabric Showroom Manager*

"We save 30% on overnight shipments. Hey, that stuff adds up."
— *Import/Export Manager*

"More bang for the buck. UPS does that for us."
— *VP, Financial Consultant*

"Many times it's me and UPS against the world."
— *Shipping Director*

"If it wasn't for them, we wouldn't have a business."
— *Assistant Production Manager*

"A lot of other companies tried to get my business. There is nothing that compares with UPS."
— *Chief Financial Officer*

"I get here at 8:30 and sometimes they're here before I get in."
— *Facility Manager*

"Internationally, I recommend only one company. That's UPS."
— *Export Executive*

"When you have to have Saturday delivery, UPS is who you bank on."
— *Materials Management Director*

"They do a lovely job."
— *Warehouse Clerk*

"The most reliable people in the shipping business. That's a fact."
— *Customer Service Manager*

"They have a heck of a tracking system."
— *Export Manager*

"Coast to coast, overnight or second-day, definitely UPS. Hands down."
— *Shipping Manager*

"UPS takes care of the customs. It sails right through."
— *Shipping Warehouseman*

"They always come in with a smile."
— *Senior Collector*

"Why UPS? When you have the best, you stick with them."
— *Shipping Clerk*

"If they say it's 10:30, absolutely it's 10:30."
— *Shipping Clerk*

"Our computer is linked up with them directly."
— *Director of Operations*

"They pick up when they say they're going to and they deliver when they say they're going to."
— *Administrative Assistant*

"They have saved my butt so many times that now I've come to depend on them."
— *Shipping Director*

"Why take chances? Fly UPS."
— *Shipping Group Leader*

Compliments like this would make you blush, too.

We'd rather not toot our own horn. So if you want to know why more businesses worldwide trust UPS for reliable, on-time delivery, don't ask us. Ask our customers. **The package delivery company more companies count on.**® ups

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buyers are taking out bridge loans in order to make cash offers on houses. "It's busier than it has been since the good ol' 1980s," says Jean LeVaux, owner of Prudential LeVaux Properties of Cambridge. Connecticut's resurgent housing market, meanwhile, is swimming successfully against a tide of bad news. Bic and Kollmorgen are moving operations out of state, and United Technologies plans to cut 5,700 jobs from its Pratt & Whitney aircraft-engine unit. Yet low asking prices and bargain interest rates are holding sway. Barry P. Rosa, vice-president for mortgage real estate at People's Bank in Bridgeport, says demand for construction loans is at a three-year high. And mortgage closings this year, mostly refinancing deals, should well surpass last year's total of $785 million.

Folks such as Mehdi Mostaghimi and Du Cheng are riding to the rescue. For four years, the couple lived in a two-bedroom condominium in Cheshir Conn., waiting for a chance to buy house where they could start a famil Now, they've bought a 1.7-acre lot Madison, Conn., and signed up a build for a $365,000 home. "There is no reaso to wait," says Mostaghimi. "We are the bottom on price." And that condo feeling mighty cramped.

By David Greising in Chicago, wit Mark Maremont in Cambridge, Mass., an bureau reports

SOUTHERN CALIFORNIA IS WARMING UP

For five years, John S. Long steered well clear of Southern California. Instead, his El Segundo (Calif.) Highbridge Partners liquidated its California portfolio to buy up apartments in Houston. Now, Long is poking around his own backyard again. Last year, he put down $25.8 million for a six-story office building just west of Los Angeles. And he's primed to buy more locally after he unloads some Texas property. "This is the best time in the last two decades to be buying in Southern California," Long says.

No one is predicting that Southern California's depressed real estate market is set to come roaring back. But after suffering years of plummeting values, a throng of savvy buyers seems convinced there is money to be made in the nation's largest commercial market. General Electric Capital Corp. and Morgan Stanley, among other heavy hitters, are buying up pools of distressed properties concentrated there. In some cases, investors are actually bidding up prices.

Such commotion reflects new interest in commercial property all over. While the national vacancy rate for office space remains flabby at 18.7%, bulk sales by the Resolution Trust Corp. have created a liquid market for distressed property, drawing such players as Goldman, Sachs & Co. and Robert Bass. Financier George Soros joined up in a big way on Feb. 8, announcing a $525 million fund to be managed by Paul Reichmann, former head of the crumbling Olympia & York real estate empire.

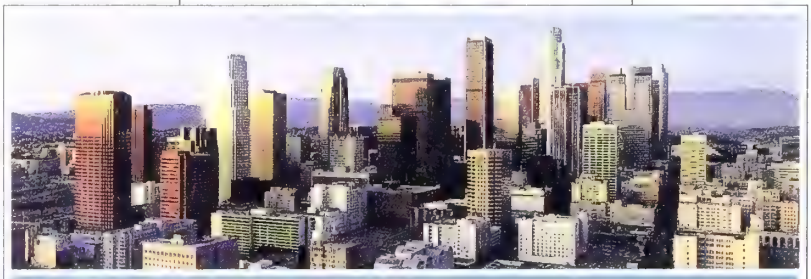
A lot of that money is headed for L. A., with ample reason: Sellers have finally knocked prices down to fairly reflect the cash that their properties throw off. Simply stated, "sellers are being more realistic," says Charles R. Lande, president of the investment firm West Group in Pacific Palisades. That's why investor Jeffrey Gault and Los Angeles-based insurance company SunAmerica paid $25 million—half the original construction cost in 1979—to buy a La Jolla (Calif.) shopping mall from financially strapped retailers May Department Stores and R. H. Macy.

LIQUID MARKET. Many California banks and thrifts are scrambling to unload problem assets that already have been written down, depressing prices even further. More than $2.1 billion of those assets have been written off over the past two years, reports the Federal Reserve Bank of San Francisco. That's atop the $143 million in foreclosed commercial real estate that the RTC has dumped in Southern California alone in the past two years.

Rather than drowning in the surfeit, some California properties are generating the kind of heat few brokers have seen in years. Some competition is being stoked by buyers from countries such as Thailand and South Korea, who are stepping in as Japanese investors pull back. Last year, a group of Pakistani investors helped send the price of Trammell Crow Co.'s 90%-leased, 250,000-square-foot industrial park in Los Angeles County to $9 million. Even among U. S. investors, the bidding can be fierce: Six buyers converged on a 450-apartment complex in Anaheim in December, upping the price to $35 million for a property that Wells Fargo had taken over by foreclosure, says one broker in the deal. "We were very pleased with the price," says William V. Harvey, senior vice-president with Wells Fargo Realty Finance.

Don't look for total recovery yet. After all, Southern California lost 200,000 jobs in 1992, and defense and government payrolls will keep shrinking. "You won't see a real turnaround . . . until we get job growth," says Jeffrey D. Egerston, a partner in charge of Coopers & Lybrand's Southern California real estate business. That could take five years—a long time for most folks, but short enough to keep some big players with deep pockets interested.

By Amy Barrett in Los Angeles, with Julie Tilsner in New York



L.A., ON THE CHEAP

Big-name investors, smelling decent assets at fire-sale prices, are moving in on commercial property in Southern California. The biggest deals so far:

COLONY ADVISORS/GE CAPITAL Paid $210 million for assets of Great American Bank, with book value at $500 million—almost all nonperforming loans

ALDRICH, EASTMAN & WALTCH Investment firm bought remains of Homefed Savings. Paid 50¢ on the dollar for loans, primarily on apartment properties, with over $500 million book value

MORGAN STANLEY Agreed to buy $1.7 billion of assets from Bank of America. Mix of properties, roughly 25% in Southern California. Insider says it passed on raw land in BofA's portfolio

DATA: BUSINESS WEEK

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ROLM is part of the Siemens family. The world's largest private communication systems manufacturer, serving you in over 132 countries around the world. Talk about big families.

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EDITED BY KEITH HAMMONDS

CONSUMERS REPORT

A survey of 6,500 U.S. households reveals which goods and services consumers think offer the most value. Chicken is seen as a better deal than fish, for example. Lawyers, dentists, and doctors all get low marks, as does college. And foreign cars just edge domestic. Here, buyers' tops and flops:

TOP BUYS

- Poultry
- Videotape rentals
- Fruit and vegetables
- Television sets
- Red meat

THUMBS DOWN

- Pay-per-view TV
- Hospital stays
- Credit cards
- Lawyers
- Live sports events

DATA THE CONFERENCE BOARD

A BREATHER FOR MICROSOFT

▸ Microsoft has dodged one Federal Trade Commission bullet, but more may be coming. Commissioners voted on Feb. 5 to defer action to restrict the software giant's ability to set pricing and technology standards. The decision represents only a reprieve for Microsoft and Chairman Bill Gates, who spent days roaming FTC corridors to plead his case. FTC insiders say commissioners have asked staffers for more evidence and may meet again in a few weeks.

WHAT'S NEXT? PHONE AND TV ON ONE BILL?

▸ Southwestern Bell jumped headfirst into video services, agreeing to pay Hauser Communications $650 million for cable-TV operations in suburban Washington, D. C. The deal, which requires government approval, would make Southwestern the first Baby Bell to buy a U. S. cable system. Analysts expect more deals to follow. The law restricting phone companies from buying TV systems in their own service areas may die soon, as the industry lines blur. Cable companies are itching to get into the phone business, too. Southwestern Bell, which operates cellular-phone service in the Washington area, may combine its cellular and cable properties to provide a cheaper pocket-phone service called personal communications.

NEXT ON JOBS'S LIST: NEXTSTEP

▸ Steve Jobs has seen the future again. This time, it isn't hardware. Unable to make money selling high-octane workstations, Jobs's NeXT Computer will shut its factory and lay off all but 200 of its 536-person staff. After spending more than $200 million from Canon, Ross Perot, IBM, and Jobs himself, NeXT will focus on what customers always have said is the company's crown jewel: its NextStep operating program, which makes writing software a snap. First, Jobs must finish a long-delayed version of NextStep for IBM-style personal computers. Even then, Microsoft's release of its new operating software this summer could steal his thunder. His best hope: Get PC makers to offer NextStep on their machines.

LITTLE IVANA, ENTREPRENEURIAL AT LAST

Nobody had ever linked Ivana Trump with affordable couture or pegged her as a role model for working women. At least, not during the 1980s, when glitz was good and work was for somebody else.

Meet the Ivana Trump of 1993. Two years after divorcing The Donald, she's wrapping up a self-help book and is set to unveil the Ivana Inc. line of fashion, to be sold on cable TV's Home Shopping Network. "I beautiful, affordable clothing," promises Ivana from Switz land, where she's researching a book, *Free to Love*. Oooo

Due out in April, Ivana's $100-to-$200 outfits range fr basic black to "yummy pastels." Ivana will plug the cloth herself, in spots filmed at her three homes. She'll follow with costume jewelry in May and a cosmetics line in Septe ber. Who's going to buy the stuff? Probably the same 350, people who bought her novel, *For Love Alone*.

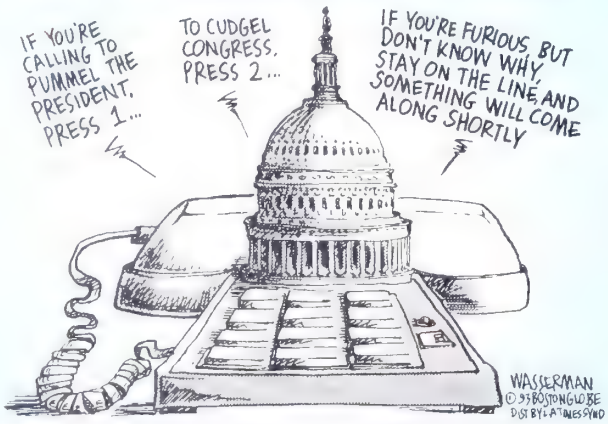
THE COURT WON'T LET GM CLOSE WILLOW RUN

▸ General Motors hit a pothole on the way to closing a Michigan factory. A Washtenaw County judge ruled on Feb. 9 that GM was bound by promises to keep its Willow Run assembly plant open, in return for $13.5 million in local tax abatements granted during the 1980s. The pla which employs 2,500 a builds large rear-wheel-dr cars, was scheduled to cl this summer. GM has put closing—and a planned c solidation of big-car prod tion at its Arlington (Te factory—on hold while it p pares an appeal.

CAN THE UNION STAGE A RUN ON THE BANK?

▸ For a bank that last y reported a $1.5 billion pro Bank of America's recent cision to shift thousands tellers and other work into part-time positi seemed to some to be cat ing too much to investors. Feb. 9, the California La Federation urged its 2 mill members to withdraw mo from the bank to prot BofA's move, which sho yield huge savings in medi and other benefit costs. Bo won't comment on the eff the CLF's call is having on posits. But some believe t such tactics, in the wake huge profits and a still-tr bled California econo could bring further attac Says a former BofA exe tive: "This is too sensitive environment to take such drastic action."

WASHINGTON UPDATES ITS PHONE SYSTEM



CAMRY

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It starts the moment you turn the ignition. You feel he powerful (yet amazingly quiet) 185-hp, 24-valve V6 ngine spring to life. As you quickly gather momentum, he 4-speed electronically controlled automatic overdrive ransmission (ECT) shifts smoothly. Almost imperceptibly. our adrenaline begins to rise. The variable-assist power ack-and-pinion steering sends a message to your brain: ou are in control. And loving it. You settle into a rhythm of straightaways and turns. The Camry's 4-wheel independent suspension responds to each. Beautifully.

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EDITED BY STEPHEN H. WILDSTROM

OR LOBBYISTS, THESE MAY E THE GOOD OLD DAYS

While official Washington has worked itself into a tizzy over the nuances of Nannygate, Congress—of all places—is quietly getting down to work on a se- is ethics issue. The Lobbying Disclosure Act of 1993 has re- ved almost no attention. But it could dramatically affect the y business does business in the capital.

The proposal is the brainchild of a bipartisan group of use and Senate members led by Senator Carl Levin (D- h.). It has the blessing of the Clinton Administration and es no organized opposition—yet.

But lobbyists are sure to launch a coun- attack soon because the bill might actu- accomplish something. It would re- re, for the first time, that all fessional lobbyists register and identify ir clients, the issues on which they have bied, and how much they were paid. It uld extend coverage to efforts to influ- e the executive branch, now largely egulated. And it would close loopholes t allow most representatives of foreign erests to avoid public identification.

AKE SHOW. The legislation tosses a few es to lobbyists, too. It streamlines the rent loophole-ridden requirements by lucing disclosure from four reports a r to two—but would require far more people to file. And it nificantly reduces paperwork for companies employing mul- le lobbyists.

The proposal, says its co-author, Representative John vant (D-Tex.), "will allow the public, perhaps for the first e in history, to understand how lobbying is done in the ls of Congress." It's about time. Congress has long turned lind eye to lobbying abuses. There are enough influence- ldlers in the capital to populate a small city—13,000 of m are listed in a directory entitled *Washington Representa- s*. But loopholes in 40-year-old laws allow three-quarters of m to avoid registering as lobbyists. "The current law is a farce," says veteran lobbyist Howard D. Marlowe. "There are so many holes in it that it looks like Swiss cheese."

The lobbying proposal solves political problems for a variety of players. Clinton can fulfill his promise of lobbying reform without spending any money. He can also throw a bone to Perotnistas by appearing to respond to Ross Perot's relentless campaign assault on special-interest water-carriers. And lawmakers can cast a vote for change while skirting the bitter partisan warfare of campaign finance, a more controversial item on the reform agenda. "Nobody, Republican or Democrat, minds putting some pressure on the lobbyists these days," says Democratic consultant Brian Lunde.

LEVIN: BOTH PARTIES BACK REFORMS

NO NAMES. The proposal is no cure-all. To make it more palatable to incumbents, the authors agreed not to require lobbyists to identify the individual lawmakers they lobbied. Instead, they would be required only to list the committees they sought to influence. Tax lawyers are worried that the bill's provisions would compromise their clients' business interests by forcing them to disclose certain communications with the IRS. And charitable groups and civil-liberties organizations fret that their behind-the-scenes discussions with lawmakers or federal agencies would be revealed. "We don't purport to hold this out as a perfect piece of legislation," concedes one co-sponsor, Senator William S. Cohen (R-Me.). "But we think it will make a marked improvement over what we have today."

Resourceful lobbyists will work behind the scenes to kill or dilute the bill, but they are resigned to some version of it becoming law in this year. Why the relative calm in Gucci Gulch? Says one veteran of the Washington political wars: "There is a basic belief that whatever ramparts are put up can be easily stormed. And who wants to be known as the person who killed lobbying reform?"

By Richard S. Dunham

PITAL WRAPUP

EPUBLICANS

For the last couple of weeks, Bill Clinton has looked like a President ho couldn't buy a good break. But 's about to get one from an unlikely urce. Senate Minority Leader Bob ole (Kan.) is letting his House coun- rpart, mild-mannered Robert H. ichel (Ill.), anchor the televised re- onse to the Feb. 17 State of the Un- n speech. Clinton would have gotten ugher handling from House Minority hip Newt Gingrich (Ga.) or another P firebrand. Michel is planning to e the event to showcase the diver- ty of GOP House members. Among ose being considered for supporting roles: Jay Kim (Calif.), the first Korean American in Congress; Henry Bonilla (Tex.), a Mexican American; and Gary Franks (Conn.), the House's only black Republican.

TAXES

The millions of Americans who have just learned that they're supposed to pay Social Security taxes for casual household workers may see the rules eased. Dan Rostenkowski (D-Ill.), chairman of the House Ways & Means Committee, has reintroduced a provision of a tax bill vetoed last year that would raise the Social Security minimum earnings requirement from $50 a quarter to $300 a year. But as it stands, the legislation wouldn't change the rules that declare all household workers to be employees rather than independent contractors.

PEOPLE

Auto makers are likely to have to deal with a consumer activist at the National Highway Traffic Safety Administration. Leading candidates for the job include Judith L. Stone, executive director of Advocates for Highway & Auto Safety, and Georgia highway-safety chief Thomas L. Coleman.... Olena Berg, deputy state treasurer of California, is in line for the top pension regulation job at the Labor Dept.

BARBARA RIES

A DRUGMAKER IN NEED OF A PICK-ME-UP

Glaxo faces a host of ailments—including threats to the market for its best-selling Zantac

When Paul Girolami became chief executive of Glaxo Holdings PLC in 1980, the first thing he did was clean out the cupboards. At the time, the British drug giant was a purveyor of everything from animal feed to vitamins. He sold assets and spun off businesses until nothing but prescription drugs remained. He pumped up research spending and launched Zantac, the blockbuster anti-ulcer compound. Glaxo's sales, profits, and stock price zoomed, transforming the company into Europe's high-tech standout.

But now Glaxo faces a midlife crisis. It has a host of problems, ranging from patent challenges and pricing pressures to new medical advances that could wipe out the market for Zantac, the world's best-selling drug. It contributes 44% of Glaxo's sales and an estimated one-third of its profits. The uncertainties have cut Glaxo's share price to $9.33, down 31% from its 1992-93 high. Although it has some promising drugs in the pipeline (table), some bold moves are also needed. Glaxo, now challenging Merck & Co. f No. 1 in the industry, is to maintain impressive growth (chart). One key fort in the works: a controversial retu to over-the-counter (OTC) medicines.

The planned diversification does n have Girolami's wholehearted backin industry sources say. Some predict may even lead to the early departure Girolami, 67, as Glaxo reverses his co centration on prescription drugs. CEO F nest Mario, 55, is the heir apparent a

WHAT'S NEW IN GLAXO'S PIPELINE

Imigran, an antimigraine drug, is available in Europe and will go on sale as Imitrex in the U.S. in March. Annual sales could hit $1 billion

A promising anti-AIDS compound known as 3TC is undergoing clinical trials
TARGET LAUNCH DATE: 1996

Ondansetron is in clinical studies for possible use against Alzheimer's disease
TARGET LAUNCH DATE: 1995

A combination of Zantac and an antibacterial compound is under development as a possible ulcer cure
TARGET LAUNCH DATE: 1996

DATA: BUSINESS WEEK

TABLET MAKING AT GLAXO: RETURNING TO THE OVER-THE-COUNTER MARKET

driving force behind the switch, but was not due to assume the chairman-) until 1995. A Glaxo spokesman "em- tically denies any disagreement be- en the two over the future direction :he company" and says Girolami has plan to depart early.

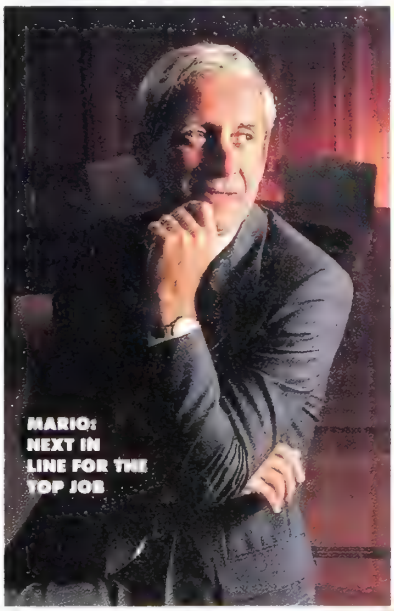
:laxo isn't saying whether it will start)TC division from scratch or acquire a ıpany with the consumer-marketing ertise it lacks. Warner-Lambert Co. ften mentioned as a possible merger oint-venture partner, especially since research and development team is fo- ing on treatments for central nervous tem diseases such as Alzheimer's,) a target of Glaxo re- rch. And Warner-Lam- t's experience marketing aids antacid tablets ıld come in handy if, as ected, Glaxo applies to Food & Drug Admini- tion to switch Zantac m a prescription to an : drug. A Warner-Lam- t spokesman says the ıpany is interested in reign partnerships and ances prudently and erever possible."

ıDACHE. In the past, Giro- ıi has criticized mergers ı management distraction l a drain on profits. It s hard to argue with him. er streamlining Glaxo, he ned it into a powerhouse tripling R&D spending, de- tralizing, and launching drugs in global-marketing blitzes. en, he sat back and watched as sales w from $1 billion in 1982 to $6 billion ecade later.

t was a great strategy—for the 0s. But analysts expect Glaxo to an- ınce soon that profit growth slowed 10% in its first half, and they worry ıut steeper drops ahead. The drug siness has changed. Gone are the days en most patients obtained medicines prescription from a fee-for-service sician. The market now is driven by ge buyers—managed-care programs, ernments, even mail-order compa- s—seeking drugs at the lowest possi- cost. Hospital groups and govern- nts cap costs by devising formularies, lists of drugs from which doctors can scribe. To get their drugs listed, most ırmaceutical companies offer rebates, counts, and bulk sales.

While Glaxo has been successful in ling to large groups, lower-cost gener- drugs and over-the-counter drugs are v in favor. California, for example, in y will take Zantac off the trend-set- g Medi-Cal list, but SmithKline Bee- ım PLC's less expensive Tagamet will staying on, even though Zantac is widely recognized as the superior ulcer treatment.

In the current climate, refusal to bargain over price could hurt Glaxo. David S. Karlin, general manager at National Prescription Administrators Inc., which runs drug-benefit programs for companies, says a new list he's devising will include Tagamet but not Zantac because Glaxo was unwilling to negotiate. And just as drug prices are coming under scrutiny, Glaxo is launching what could become its next big seller, an expensive anti-migraine drug called Imigran. Available in the U. S. in late March as Imitrex, the compound is expected to cost between $40 and $60 to slay a migraine. With prices like that, says Michael Neff, chief of Medi-Cal's pharmacy administration section, "we're going to have some real problems approving this drug, given all the other things people want us to spend money on."


MARIO: NEXT IN LINE FOR THE TOP JOB

Many European governments, which already have controls on drug-price increases and profits, are getting even tougher. Based on complaints from Denmark's health authorities, the European Community is investigating Glaxo's pricing and marketing policies. But Glaxo's biggest headache may be the Clinton Administration. The U. S. accounts for almost 40% of Glaxo's sales, and there's a possibility that Hillary Rodham Clinton's health-care task force, which is seeking ways to cut medical expenses, could impose European-style controls on drugs.

Pricing pressures are just one of many blows to Glaxo's midsection. The death of Zantac, the company's cash cow for 10 years, has been predicted many times before. This year, though, analysts say Zantac's demise could be for real. A generic version of Tagamet will be introduced in the U. S. in mid-1994, when Tagamet's patent expires. That drug could be priced as much as 90% below Zantac. "I'd guess most people will have trouble justifying a 90% premium, even for Zantac," says Hemant K. Shah, an independent drug-company analyst. Meantime, Glaxo has been cashing in while it can. Over six years, it boosted list price for a one-month supply from about $56 to $82—an increase of almost 50%.

GUT ISSUES. Also haunting Zantac are patent challenges by generic manufacturers Novopharm Ltd. and Genpharm Pharmaceuticals Ltd. Glaxo's original patent expires in 1995, but the patent on a newer formula runs to 2002, and it's that patent Glaxo is defending. The challengers allege that the second patent is equivalent to the first one and therefore void. Legal experts are divided on whether Zantac can survive the two challengers. The Novopharm case will go to trial in Raleigh, N. C., this summer, while the Genpharm case has yet to be scheduled.

If that's not enough, Zantac also is under fire now that medical researchers have confirmed, in a Feb. 4 *New England Journal of Medicine* article, that common gut bacteria play a major role in the recurrence of ulcers. About half the people who take Zantac are on a maintenance program to keep a healed ulcer at bay. "If you can cure an ulcer outright, the maintenance market could become redundant," observes Stewart Adkins, a Shearson Lehman Brothers Inc. analyst. In a statement, Glaxo says: "The theory that [the *H. pylori* bacterium] causes duodenal ulcers is not proven." While Glaxo downplays the study's significance, it's furiously working to develop a combined Zantac and antibacterial drug, but that is not expected to be ready until 1996.

It's not all bad news at Glaxo. Some analysts are projecting sales of $5 billion a year for Imigran by 1997, surpassing even Zantac. The company recently launched two other promising drugs: Serevent, an anti-asthma compound, and Zofran, a drug that prevents nausea and vomiting in postoperative patients and after chemotherapy. Sales of both have been slower than predicted, but together they could reach $1 billion in just a few years. But as Glaxo and its competitors enter a new era, trying to come up with new blockbuster drugs is enough to give anyone an ulcer.

By Paula Dwyer in London, with Joseph Weber in Philadelphia and John Carey in Washington

APOCALYPSE NOW BAR, HO CHI MINH CITY: RAMPANT PROSTITUTION HAS CREATED A BREEDING GROUND FOR AIDS

ASIA

THE AIDS DISASTER UNFOLDING IN ASIA

Nations are miserably ill-equipped to manage the onslaught

It was all part of the business culture, says K. Surapong. As a marketing manager for Central Department Store Ltd., Thailand's largest chain, he and his buddies, all in their 20s and early 30s, would work late, drive to a cafe, booze it up, and then make their way to a massage parlor. "I'd have sex there four or five times a week," he says. Now, at 38, Surapong is no more than a shadow of his former self, losing the battle against AIDS. "I'm not sure I'll live to next year," he says.

The tragedy for Thailand is that Surapong's lifestyle is common. From truck drivers to bank managers, Thai men routinely visit prostitutes. And along the way, they are picking up the deadly virus. Already, as many as 600,000 Thais are infected with HIV in a country of 57 million, and up to 1,200 new cases are expected daily.

As the scope of the disaster becomes clear, Thais are realizing the economic health of their nation is equally at risk. AIDS is striking at the heart of the work force: young men and women in the peak of their productive years. Health-care costs are sure to skyrocket, a labor shortage w emerge, and foreign investment could d up. Tourist industries will be hit. Bangk officials estimate that the combined cos of the AIDS epidemic could reach $8.7 b lion by the year 2000 (table). "In Thailan if the situation is raging out of control, ye it will stop economic development," o serves Charles Myers, an AIDS expert Harvard University's School of Publ Health who has studied Thailand.

EXECS' DISEASE. Thailand may be a harbi ger for the rest of Asia. According to th World Health Organization, some 40,0 adults already have developed symptom of AIDS in Asia. In the wings are growin numbers of Asians from Guangzhou to H Chi Minh City who are testing positive f HIV, which may take up to 10 years to d velop into full-blown AIDS. In India alone, million people are HIV-positive. But b cause of the high costs of medical equi ment, an incredible 95 of India's blood supply not being tested. By th year 2000, projects th WHO, more than 1 millio adults in Asia will b come infected with HI each year, surpassin even the infection rate i beleaguered Africa.

Even the richest o Asian nations has an i adequate AIDS policy. T kyo is only starting t see that AIDS is becomin a businessman's disease contracted on "se tours" around the regio

AIDS RIPS ACROSS THAILAND

Thailand's economy could stumble if the AIDS epidemic isn't stopped.

HUMAN TOLL By the year 2000, between 2 million and 6 million people will contract the virus. In that year alone, 180,000 will get sick, and an additional 160,000 will die.

HEALTH CARE Treatment for AIDS, excluding expensive drugs, costs $1,000 a year, or 50% of the annual income for an average family.

LOST INCOME Each death from AIDS, which usually strikes victims in their peak earning years, equals a loss in future earnings of $22,000 per person.

LABOR SHORTAGES A reduction in Thailand's inexpensive labor supply could easily discourage foreign investors, who plunked down $1.35 billion last year.

TOURISM The $4 billion industry is already slacking off, in part from the impact of AIDS.

DATA: THAI GOVERNMENT, BUSINESS WEEK

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(box). "The center of gravity of the AIDS epidemic in the world is moving to Asia," says David E. Bloom, professor of economics at Columbia University in New York.

For years, many Asians considered AIDS to be a foreigner's disease, an evil import from the West. Today, most governments understand that their own cultural and social habits, such as prostitution, have created a breeding ground for what is now an overwhelmingly heterosexual disease. But most governments are reluctant to launch massive AIDS-prevention drives for cultural, religious, and political reasons.

Barring immediate and sustained government action on a wide scale, "the economic impact will be profound," says Michael Merson, director of the WHO's Global AIDS Project. Many Asian nations host the same conditions that are causing the disease to spread across Thailand: Indonesia has an estimated 800,000 prostitutes; Malaysia has as many as 1 million intravenous drug users; and the Philippines has a booming sex industry and a poor record of screening blood.

Western multinationals and Asian corporations are beginning to wake up to the gravity of the crisis. Already facing a dearth of skilled laborers in many parts of Asia, companies could be dealt a blow if they suddenly began to lose experienced staffers to AIDS. Recruitment costs would increase, health costs would escalate, and absenteeism would jump. Says Bangkok's Regent Hotel General Manager William D. Black: "I'm an ordinary businessman, not a crusader, but we're talking about the impact AIDS will have on business."

Ultimately, the economic costs associated with AIDS may galvanize the region to respond. In Taiwan, where unemployment hit a 10-year low of 1.5% last year, any loss of HIV-infected workers would worsen a labor shortage, and the same could prove true elsewhere. "Multinationals will be really hammered," says Christopher Powell, a WHO official in Geneva. "Any company with plants [in Asia] has to start factoring AIDS and HIV into all its decisions."

PRO BONO ADS. Saddled with the greatest HIV problem in Asia, Thailand is also making the greatest inroads in combating the disease. Much of the credit goes to Mechai Viravaidya, a Bangkok family-planning expert who two years ago launched a nationwide prevention campaign with the backing of the government. Today, every government ministry from health to police has a budget covering AIDS education. From age 10 on, Thai children are taught about AIDS prevention in school. Government-sponsored ads about AIDS are broadcast on television and radio. Mechai even helped launch a Bangkok restaurant, called Cabbages & Condoms, that sells red, blue, and yellow condoms and T-shirts emblazoned: "A condom a day keeps the doctor away." A sign at the cashier reads: "Sorry we have no mints. How about a condom?"

Thailand's bold efforts show signs of paying off. Condom use is increasing, and the number of people with other sexually transmitted diseases is dropping. Thai business leaders are helping to keep the campaign going. Take the Dusit Thani Hotel Group, Thailand's largest hotel chain. Two years ago, the company launched an AIDS-education drive for its 6,000 workers. All staff were required to attend a three-day seminar, and last fall the company declared an AIDS Awareness Month, complete with slogan contests and door prizes.

Foreign companies in Thailand also are gearing up. Saatchi & Saatchi Advertising in Bangkok has produced 7 TV commercials and 12 radio spots for the government, totaling $400,000 in pro bono work. More are in the works. "Do you know how hard it is to switch consumer behavior from Brand A to Brand B?" asks John J. Geoghegan, the company's chief executive in Thailand. "Here, we're dealing with human sexual behavior."

But the rest of Asia is lagging behind Thailand. For one thing, ignorance is rampant. A study of 1,000 Asian employees of a large international bank showed that 20% believed AIDS was a disease that only a flicted homosexuals or Westerners. In Ch na, people have burned money and pair ings handled by people with AIDS. The even refuse to touch doorknobs that mig have been handled by AIDS sufferers.

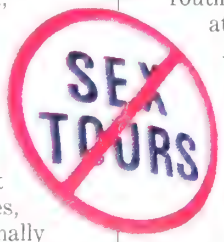
Rather than change their ways, son Asians are looking to protect themselve by finding what they call "clean" sex. Th means looking for younger prostitutes. taxi driver in Kuala Lumpur said he ar his friends drive to northern Thailand fo vacations, where each hires a 14- or 1 year-old virgin for a week. But first, the take the girls to a doctor to check for HI Many Japanese believe that if they pay premium for a prostitute, she will b healthier.

If, as a result, AIDS permeates the re of Asia the way that it has Thailand, corp rations will be forced to rethink the enti operating climate in the Asia Pacific r gion. "AIDS is to an economy what termite are to a house," warns Columbia's Bloon "It goes undetected for a long time, an then you see things crumble." Asia has clear warning that its house has a problen

By Joyce Barnathan in Bangkok, wit Ken Stier in Bangkok, Bruce Einhorn i New York, and bureau reports

JAPAN FINDS THE SILENT TREATMENT IS POOR THERAPY

It took only one phone call last October to devastate the 33-year-old Japanese software engineer. He was summoned from Southeast Asia back to Tokyo where his boss told him: You're HIV-positive—oh, and you're fired. A doctor running a health check had tested him for HIV without his consent. "It's unbelievably cruel," says Tsutomu Shimizu, the attorney for the engineer.



Not to mention bumbling and ill-informed—like Japan's overall approach to AIDS. After years of neglecting a disease deemed relevant only to foreigners, prostitutes, and homosexuals, Japan is finally beginning to form an AIDS policy. Officially, 543 people have AIDS in Japan and 2,551 are HIV-positive, but specialists fear the real figures are 10 times higher. "This is a critical time," says Yoshiki Sakurai, an AIDS expert. "We'll know in five years if we're too late."

Oddly, it took news from abroad—that basketball star Earvin "Magic" Johnson contracted HIV through sex with women—to jolt Japan awake. Then last summer, Japan's own statistics shot up. Years of astounding risks taken on sex tours to Bangkok, Manila, and Seoul by executives were taking their toll.

FAMILY SHAME. Although prevention efforts are gearing up, little is being done for AIDS sufferers. Hospitals, afraid of scaring off other patients, routinely turn them away. The situation is worse in the workplace: A survey of top companies released Feb. 7 found 91% have no policy to handle people with the virus.

Getting HIV carriers to openly seek help has proven nigh impossible. "Reputation is more important here than death," laments Teishiro Minami, who heads up a volunteer group. Japanese society levies severe penalties, not only on the individual but also on family and friends. Many families will abandon a relative with HIV, even disallowing burial in the family plot. So most hide their disease and pay for costly treatment out of their own pockets. For now, at least, Japan's AIDS problem is still secret.

By Karen Lowry Miller in Tokyo

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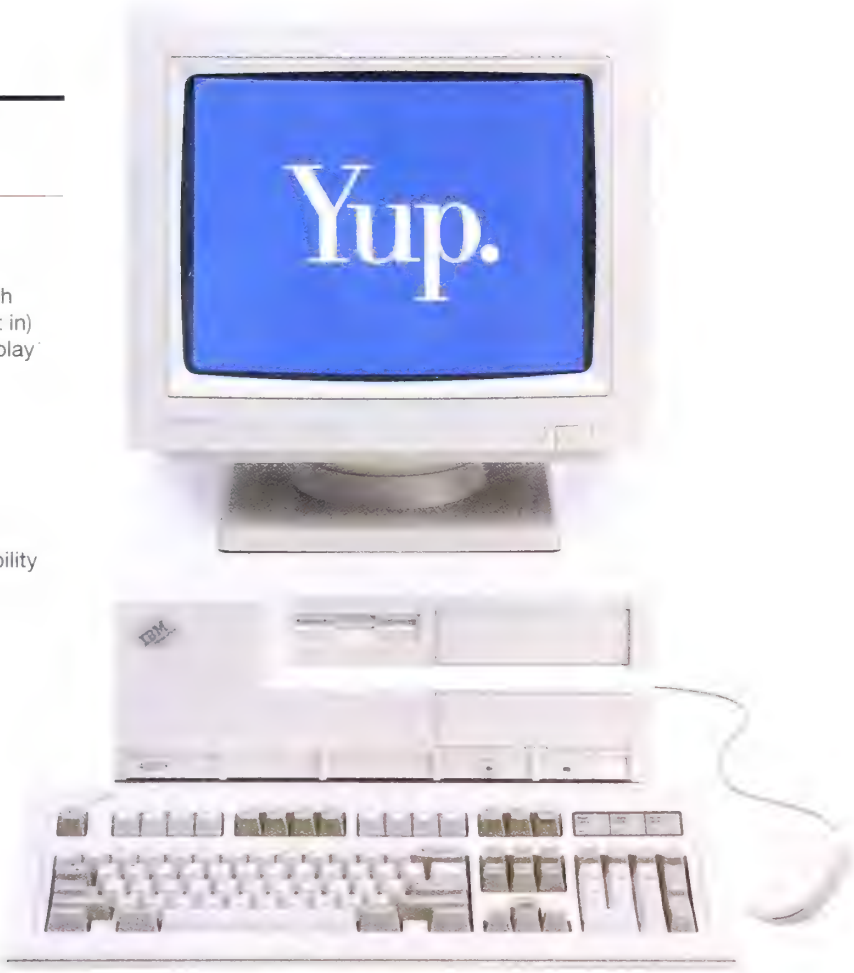

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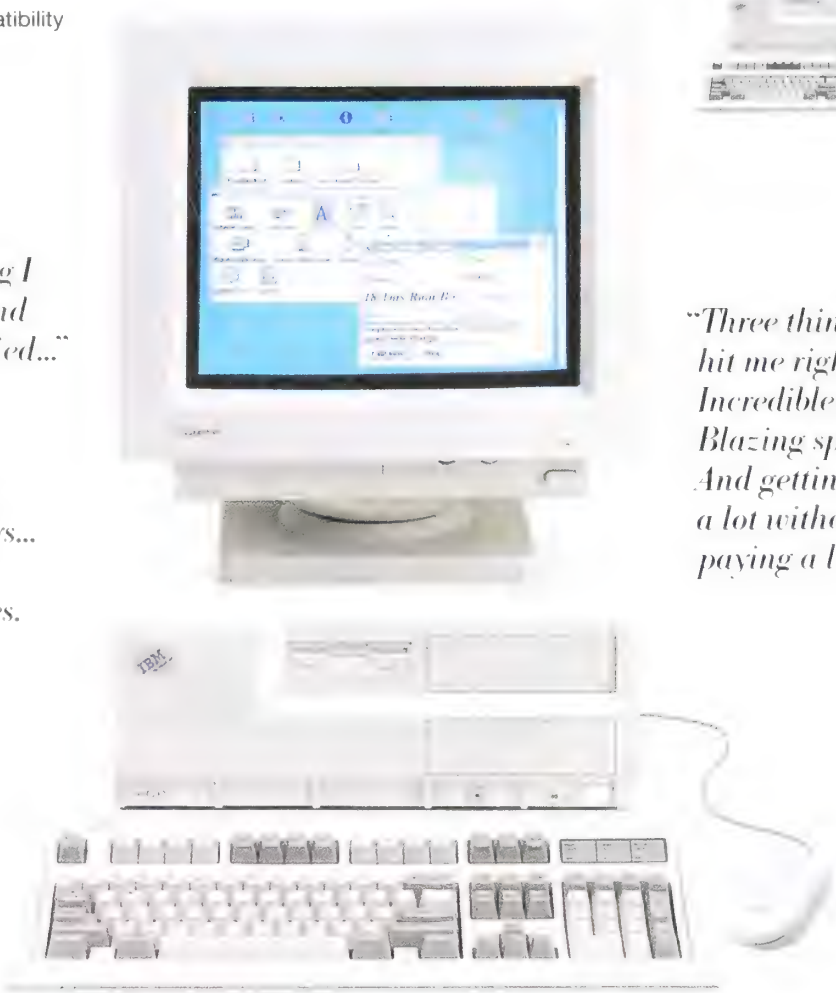

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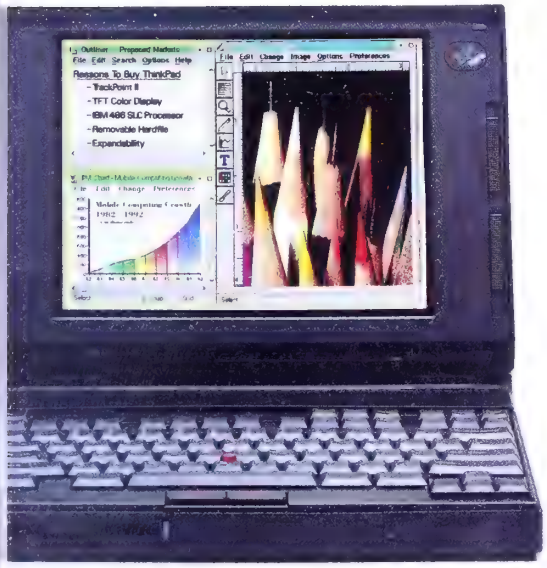

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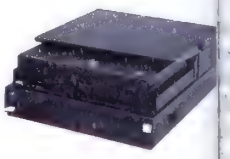

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VILL CONGRESS HANGHAI CHINA POLICY?

n the campaign trail, Bill Clinton blasted George Bush for coddling China and promised a tougher stance toward Beijing's dictators. Now, President Clinton is tting China on the back burner as he grapples with Bosnia l the Middle East—not to mention his domestic economic enda.

But unless Clinton focuses on China soon, he risks having icy toward the world's most populous country made by Conss. Representative Nancy Pelosi (D-Calif.) and Senate Maity Leader George J. Mitchell (D-Me.) plan to introduce bills March that would attach human hts, trade, and arms-control conions to China's most-favored-nan (MFN) trade status, which ist be renewed in June. Clinton cked similar legislation during campaign, but he has hinted may choose a more pragmatic arse. "If he wants to persuade ngress to follow him, he will ve to state his China policy ly," warns Senator Max Baucus Mont.)

OMINANT MARKET.' At the same ne, American companies are lobing Clinton and Congress hard to do anything that would lock m out of the red-hot Chinese economy. U. S. exports to Chi- surged 27%, to $8 billion, in 1992. "China has become nething it never was before—a major economic force, if not dominant market in Asia in the next century," says Lyn Edinger, Asia-Pacific director for Canadian phone maker rthern Telecom Ltd.

China is no longer just a place where U. S. toymakers and ttle producers go for cheap labor. In 1993, American Teleone & Telegraph Co. will export $100 million of goods and vices to China. Some 1,500 AT&T employees in the U. S. den phone gear that is made in China and sold worldwide.

BEIJING PLANS TO SPEND $5 BILLION ON PHONE GEAR

AT&T also fears that if China's MFN status is jeopardized, it won't get any of the $5 billion that Beijing plans to spend over three years to upgrade its switching systems. General Motors Corp. has similar concerns. Its joint venture in Shenyang will be assembling 50,000 trucks by 1998. And Chinese drivers are already snapping up thousands of GM's Chevy Lumina minivans, Sportvans, and utility vehicles.

Business generally backs the "targeted" approach to China that Baucus and others forced on the reluctant Bush Administration. Under pressure from the U. S., China has signed accords aimed at opening its markets, protecting intellectual-property rights, banning exports to the U. S. of prison-made goods, and curbing the transfer of nuclear and missile technology. But it isn't clear to what degree China will honor them. A worried Beijing is courting Clinton by releasing dissidents and sending its cosmopolitan U. N. Ambassador, Li Daoyu, to Washington to replace the conservative envoy Zhu Qizhen.

Clinton's point man on China is likely to be Winston Lord, who has been nominated as Assistant Secretary of State for East Asian & Pacific Affairs. Lord, who served as ambassador to Beijing in the Reagan Administration, has said in the past that China's trade status should be linked to "realistic" improvements in human rights there. He would likely argue for keeping up the pressure on Beijing while being cautious about disrupting U. S.-Chinese commercial ties. The betting in Washington is that Clinton's position will be close to Lord's. If so, Clinton had better say so fast—or he'll be hemmed in by congressional hard-liners ready to move into the China policy vacuum.

By Amy Borrus in Washington, with Pete Engardio in Hong Kong

LOBAL WRAPUP

ERMAN RATE CUTS?

s the Bundesbank about to make deep cuts in interest rates to pull ermany out of a deepening recession? s last grudging move—a quarter-point it on Feb. 4 that brought the disunt rate down to 8%—gave no hint at additional reductions were on the ay. Indeed, some analysts expect ates to fall as little as 1.5 percentage oints this year. But Deutsche Bank conomist Ulrich Schröder notes that e central bank cut short-term rates .5 points during the recession of 1975 nd 3.9 points in 1982's slump. In each ase, Germany's slowdown was about s severe as it is today but with inflation running several percentage points above the current 3.8% level. "Experience should not be ignored," says Schroeder. "Once they begin to drop, rates usually fall rather quickly and quite substantially."

BIG CHUNG BOWS OUT

Hyundai founder Chung-Ju Yung thought he could shake up South Korea's politics by running for president last December. But "Big Chung" badly miscalculated and had to withdraw from politics. The government harassed Hyundai and Chung's family with tax probes and finally indicted the industrialist on charges that he used Hyundai Heavy Industries Co. money to fund his unsuccessful campaign. Local observers think that now that Chung has backed down, the government will drop the charges and leave Hyundai free of sanctions.

BONJOUR, VIETNAM

On a historic trip to Hanoi, French President Francois Mitterrand vowed to help lift the U. S. trade embargo and restore Vietnam's eligibility for desperately needed loans from the International Monetary Fund, World Bank, and other lenders. Mitterrand also offered to double French foreign investment in its former colony. And he's considering a request to cancel Hanoi's $290 million debt to Paris.

ADVERTISING

FIZDALE CONVINCED DEALERS THAT OLDSMOBILE SHARED THE BLAME FOR POOR MARKETING

HOW LEO BURNETT KEPT OLDS IN ITS GARAGE

Eating humble pie and offering VIP treatment saved the account

Nothing calms Rick Fizdale more than gazing at the moon. Taking in the view from his lakefront Chicago apartment helps him unwind from the trials and traumas of running one of America's top advertising agencies. Last Nov. 20, though, no amount of lunar therapy was going to soothe Fizdale. The chairman of Leo Burnett Co. had just had a call from Oldsmobile's top marketing executive, W. Knox Ramsey Jr. The message was brutal: Burnett should resign the $140 million Olds advertising account before the carmaker fired the agency.

What made the call especially painful was that Fizdale had been on a crusade to hold on to the car account ever since Oldsmobile called a review on Sept. 14 (table). Now, after two months of marathon strategy sessions, midnight phone calls, and torturous introspection, he was on the brink of failure. Fizdale's reaction was swift: He refused to resign and asked Ramsey to allow him to make a formal presentation to Oldsmobile's review committee. Ramsey relented. And 10 weeks after that telephone call, Olds decided on Jan. 28 to keep its account at Leo Burnett after all. Fizdale had engineered one of the most remarkable salvage operations in advertising history.

How he did it is a case study in the weird psychology of account reviews. Grim determination, lucky breaks, and odd twists all played a part. But colleagues and rivals say Fizdale was driven most by the fear of breaking a hallowed tradition of the house that Leo built: The agency's eponymous founder always kept rock-solid ties with clients. "Fizdale didn't want to be the guy sitting at the tiller when they lost the first lifeboat," says Philip Guarascio, general manager of marketing and advertising at General Motors Corp.

NOT EVEN ROPE. The trouble was, Olds dealers were howling for the agency's head. Guarascio, who sat in on the discussions of the eight-member review committee, says Burnett managed to win them over by fessing up to mistakes and offering a bold plan to remake itself. It will shut down the 109-person office in Southfield, Mich., that had handled the account. Fizdale and agency President William T. Lynch will take personal command of the account and Burnett will produce all Olds advertising at its Chicago headquarters. By moving out of Detroit's orbit, Olds believes, Burnett will bring a fresh perspective. Fizdale also pulled off the delicate task of convincing dealers that Olds shared blame for the poor marketing.

Now, he hopes the agency can start restoring a relationship with Oldsmobile dealers that had been sundered by years of neglect and eroding business. Burnett had offended them by dealing almost exclusively with Olds headquarters. "We didn't build any sort of bridge to the dealers," Fizdale says. "I don't mean a steel or iron

THE OLDS SAGA: DAY BY DAY

SEPT. 14	SEPT. 26	OCT. 21	NOV. 13	NOV. 23	DEC. 2
Oldsmobile puts its $140 million account up for review under pressure from dealers	After marathon internal meeting, Burnett launches Project Spartan to save the account	Crisis erupts at Olds after *The Washington Post* reports GM may shut down the division	Burnett airs first of a series of print and television ads to quell the rumors	Agency starts airing "Demand Better" television campaign (above)	Burnett CEO Fizdale and President William L make a three-h presentation to

idge. I mean not even a rope bridge th a single thread."

Perhaps none of this would have mat-ed, except that sales at GM's fourth-gest division plunged 60% from 1985 ough 1991. Dealers blamed much of it Burnett, saying the agency had pro-ced one hapless campaign after an-ier. By the time John D. Rock be-me Olds general manager last May, alers were clamoring for Burnett's ster. After scanning the agency's pro-sed 1993 ads, Rock was persuaded,). "The ads were blah," he recalls. "I st wanted them fired."

So when Rock called a review on pt. 14, Fizdale figured Burnett had a n-100 chance of retaining the account. ill, he wanted to fight. Oldsmobile ks in 7% of Burnett's $2 billion in do-estic billings. And it has deep roots: e agency acquired the account in 1967 ien it bought D. P. Brother Co., which d handled Oldsmobile since 1934.

TURN PANACHE. Fizdale assembled sev- of his top managers for an all-day ssion on Saturday, Sept. 26. Fueled popcorn, they hammered out 14 pos-ole strategies for keeping the account. nong the most controversial: Burnett uld buy Hal Riney & Partners Inc., a n Francisco shop renowned for its ads clients such as GM's Saturn Div. By ning Riney, Burnett would offer Olds e personal touch and creative panache at Saturn was getting. Fizdale dis-ssed the idea because he felt creative ndards weren't the problem; Burnett d to repair its ties with the dealers. A nior Riney manager confirms that Fiz-le never approached the shop.

The execs considered other schemes,), such as buying a small agency with perience in dealer advertising, shut-ig down the Southfield office, or let-ig another agency acquire it. At this int, Fizdale dubbed the effort Project artan, a takeoff on the nickname of chigan State University in East Lan-ig, near Oldsmobile headquarters. ien, during the week of Oct. 12, he led up at home to turn the proposals o a 75-page document detailing how rnett would change. Among his prom-s: The agency would build a bridge to alers by explaining its role in Oldsmo-e's marketing.

To minimize the disruption of the re-ew, Fizdale had asked Olds to leave e Southfield office out of the proc-s. Fizdale and Lynch would work to

JAN. 15	JAN. 28
le and Lynch a second five-pitch to Olds-e managers ealers	Oldsmobile decides to keep its account at Burnett

DATA: BUSINESS WEEK

If you'd like to know more about how we make whiskey here in Jack Daniel's Hollow, write to us.

ONCE THE BUNG is pounded in, the hard part to making Jack Daniel's whiskey is over with.

Our miller hand-selected Grade A American grains for it. Our distiller cooked a mash of the barley, rye, and corn—using rare ironfree water from our cave spring. Once distilled, our rickers supplied hard-maple charcoal to smooth out the new whiskey in our mellowing vats. Now, our barrelman will lay it down in the aging house, and while the years take care of this batch, we'll work on the next.

SMOOTH SIPPIN'
TENNESSEE WHISKEY

Tennessee Whiskey • 40-43% alcohol by volume (80-86 proof) • Distilled and Bottled by Jack Daniel Distillery, Lem Motlow, Proprietor, Route 1, Lynchburg (Pop 361), Tennessee 37352

Placed in the National Register of Historic Places by the United States Government.

INTRODUCING THE BMW 740i. A CAR BUILT AROUND A PHILOSOPHY BUILT AROUND A DRIVER.

Some companies build their cars around a price tag. Some build their cars around a gas tank. And some, well, they just build their cars around mere cosmetics.

At the Bavarian Motor Works, however, we've always believed that a vehicle should satisfy all the needs of its driver. Not just one or two of them.

So it's not surprising that we chose to build the new BMW 740i around you.

AN EIGHT-CYLINDER TESTAMENT TO THE DRIVER.

If our engineers build the ultimate "driver's car," then this must be the ultimate "driver's engine."

Five years in the making, our 4.0-liter, V-8 power plant was tested to run — at redline — for over 70,000 miles straight. And showed no signs of stress.

It had sand blasted into its intake. And didn't falter.

It even had ice blasted through its radiator. And didn't miss a beat.

All so that you, the driver, would not only have a powerful engine capable of transporting you from 0-60 mph in a scant 7.1 seconds.

And a fuel-efficient engine* due to its featherweight engine block cast in

*EPA estimated 16 mpg, 22 mpg highway estimate. Use estimated mpg for comparison to other cars. Your mileage may vary with speed, trip length and weather, actual highway mileage will probably be less. **See your BMW dealer for det

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ıminum. But a reliable engine that uld survive the kinds of real-life tests ıer engines couldn't.

Which, in our opinion, makes those e long years of research and develop- ɜnt well worth the effort.

HE VELVET GLOVE APPROACH TO POWER: A 5-SPEED AUTOMATIC.

Linking the driver to this standard- tting power plant is a new 5-speed ıtomatic transmission of equal note.

First, because it's sealed, so it needs ı additional fluid — and therefore no aintenance whatsoever.

And second, because this whisper- ıiet, 5-speed automatic upshifts with ch "unrivaled silkiness" (Road & Track), ıas the uncanny ability to respond almost intuitively to your commands.

And when you combine that with the kind of chassis, suspension and steering system Motor Trend magazine has deemed "tight, responsive, and confidence-inspiring," the idea of building a car around a driver starts to sound quite compelling.

Of course, this philosophy extends to the entire driver's environment. So the 740i is endowed with everything from driver and passenger-side air-bags to all the gathered Nappa leather, burnished walnut and other creature comforts you would expect to find in a leading luxury car.

And it's covered by the most comprehensive customer care program in BMW's history. One that includes a 4-year/50,000-mile bumper-to-bumper warranty,** a countrywide Roadside Assistance program,† an optional, full coverage maintenance plan and a free loaner car if, indeed, your car ever does need to be serviced.††

For more detailed information on the new BMW 740i, or the longer wheel-based 740iL, call 800-334-4BMW.

Or simply visit your local authorized BMW dealer for a thorough test drive.

And experience, firsthand, what can be achieved when a car company views the driver as a starting point instead of an afterthought.

THE ULTIMATE DRIVING MACHINE.

ıs limited warranty †Services provided by Cross Country Motor Club, Inc., Boston, MA 02155, except in CA, where services are provided by Cross Country Motor Club of Calif., Inc., Boston, MA ††Available at participating dealerships

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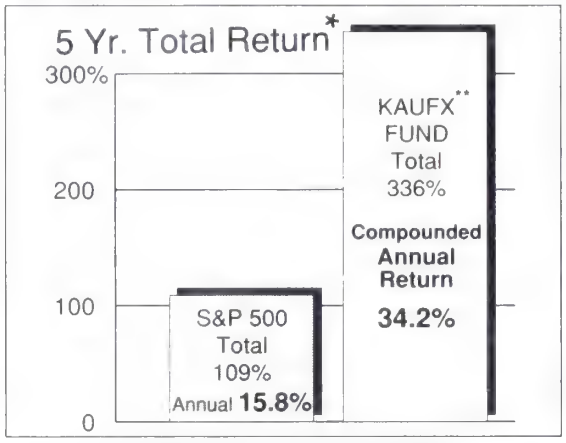

Source: Lipper Analytical Services

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Lawrence Auriana and Hans Utsch, Portfolio co-managers.

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***Period ending 12/31/92, per Lipper Analytical Services in All Equity and Long-term taxable Bond Fund categories.**

Since February 1986, the date the Fund became fully operational after reorganization, the Fund's total return was 179%. The Fund's compounded annualized return to December 31, 1992 for the one year, and 2/86-12/92 periods are **11.3%, **16.1%** respectively. Total returns for periods ending December 31, 1992 are historical and include change in share price, reinvestment of dividends and capital gains. There is a 0.2% redemption fee and a 12b-1 fee in excess of 0.25%. For more information including charges and expenses, please read the prospectus carefully before you invest. The performance cited represents past performance which is not indicative of future results; investment performance fluctuates; fund shares when redeemed may be worth more or less than original cost.*

THE KAUFMANN FUND
17 Battery Place, NY, NY 10004 • Fax (212) 344-6227

save the account, while Southfield wou continue to produce day-to-day adve tising. That proved an inspired mov since it gave Burnett a chance to prov it could do better. On Oct. 5, the sho presented new commercials to Rock th added the tag line "Demand better" Olds's much-criticized "The power of i telligent engineering." The ads feature sort of Socratic dialogue with viewe that invites them to consider an Old And the improved approach helpe bump up January sales by 2.3% ove the same period a year earlier.

Fizdale handed his plan to Oldsmobi on Oct. 20. But it was soon lost in th shuffle: The next day, *The Washingto Post* reported that GM was considerin shutting down Oldsmobile altogethe While Rock tried to calm the dealer Ramsey and Burnett produced a bli zard of print and TV ads flatly denyin that Olds was going out of busines Ramsey was deeply impressed by Bu nett's quick response.

Although the campaign helped pu down the rumors, the damage had bee done: Showroom traffic slowed to trickle. And despite its strong perfo mance in the crisis, most dealers sti wanted to replace Burnett. These sent ments prompted Ramsey's Nov. 20 ca to Fizdale. He felt the agency had better chance of winning BMW's $67 mi lion account, which had also recentl been put up for review.

STUDY IN CONTRASTS. On Dec. 2, afte Olds had visited 14 other agencies, Fi dale got to make his big pitch. To den onstrate the range of work Burnett pr duces for Oldsmobile, he had papere the agency's 22nd-floor conference roo with ads, brochures, even showroo banners. Then, he and Lynch made a impassioned three-hour presentation.

The two complement each other wel Fizdale is a gregarious, jumpy creativ type who guzzles Coca-Cola and chai smokes Marlboros. Lynch is a buttone down account manager. The committee including one dealer, peppered both wit so many questions that they quickl bagged their formal presentation. Fi dale also frankly accepted blame for ne glecting the dealers.

Afterward came the most nerve-rack ing period of all. Oldsmobile added thre more dealers to the committee and win nowed its list of agencies to a handful Burnett made the cut, but so did other with solid car credentials: Ayer, whic handles GM's corporate advertising; Ha Riney; and Ammirati & Puris, whic had produced BMW's stylish work. An other contender, Interpublic Group o Cos., even proposed setting up a new agency to handle the account, much a its McCann-Erickson subsidiary had don

· the GMC Truck Div. While Olds ılled over its options, Fizdale and nch sweated through a Chicago win-·: "My rosary beads were over-ırked," jokes Lynch.

Finally, on Jan. 15, they got another ɔt. To prove that Burnett was capable better work than Southfield had been ɔducing for Olds, Fizdale showed a ection of ads the agency created for ɜnts such as United Airlines Inc. "The ıer stuff looked like A-plus to me, l ours was C-plus," says Dick Smith, a aler and committee member from arleston, W.Va. "Why weren't we get-g some of that?"

EAKTHROUGH. The atmosphere became ɜty. The dealers wanted to know how agency with Burnett's credentials ıld have produced ads with the tag e: "This is not your father's Oldsmo-e." That campaign alienated the older ɔtorists who are Olds's core customers. ɜdale reminded them that they had ɜered when Oldsmobile unveiled the ɔts at a dealer meeting in 1988. The npaign flopped, he argued, because lsmobile didn't roll out any fresh mod-to back up the youthful new pitch.

While Olds reviewed its options, Burnett sweated. 'My rosary beads were overworked,' says Lynch

Suddenly, Fizdale seemed to have ɔken through. The dealers acknowl-ged that Olds had to shoulder part the blame. Fizdale had survived a cisive showdown. On Jan. 28, after liberating until midnight, the commit-ɜ voted unanimously to stick with Bur-tt. In the end, the dealers concluded ɜy couldn't easily replace the agen-s deep resources or new commitment. Fizdale can't afford to take much of a eather. He still has miles to go in hioning a new image for GM's troubled ɜision. Nor is Oldsmobile going to be tient: "If they don't perform, we're t going to wait 35 years to do some-ng about it," says Rock. On Feb. 3, ɜdale was already closeted in Chicago, signing the staffers who will be map-ıg strategy for a new campaign.

Between meetings, though, he allowed nself a victory lap: "Those were ıgh, intense, wonderful days," he ex-ed. Forgive Fizdale the somewhat be-ɜzzled tone. To carom through this ɔst lunatic of advertising rituals and ıerge triumphant would have left Leo ırnett himself moonstruck.

By Mark Landler in Chicago, with thleen Kerwin in Detroit

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MANAGEMENT

GUESS WHO'S RUNNING AN ELECTRIC UTILITY

Can environmentalist Maurice Strong clean up Ontario Hydro?

Last June, as Secretary-General of the U. N.'s Earth Summit in Rio de Janeiro, Canadian Maurice F. Strong exhorted industrial nations to limit consumption, boost efficiency, and curtail pollution and resource depletion—in short, to make growth less harmful to the environment. Now, Strong has an unexpected chance to test his ideas. In December, he became chairman of Ontario Hydro, a nuclear and coal-fired utility that environmentalists call one of Canada's biggest polluters. Strong says he took the job to make Hydro a model for transforming Ontario's economy into "the most energy-efficient and competitive in the world."

That's an ambitious goal. Across North America, utilities are cutting costs and pollution by promoting conservation and buying power from third parties that use clean fuels and technology. But neither avenue is fully open to Strong. Hydro is suffering from declining power sales, high debt, and excess capacity (table). Worse, it has raised rates 34% since 1989, alienating large customers. "Unless [Strong] makes the right decisions, many customers could be driven" to produce their own power or find cheaper sources, says Arthur Dickinson, executive director of a group representing industrial customers. That, analysts fear, could start a death spiral: forcing the utility to charge higher rates to offset lost demand—in turn sparking new defections.

ARCTIC START. To avoid a meltdown, Strong is cutting costs and halting projects, including environmental ones. He has frozen work on 16 proposed third-party power projects. The move will prevent a 3% rate hike but keep Hydro from making greater use of cleaner, more efficient technologies. This follows deep cutbacks in Hydro's conservation programs, which would have cost $800 million over several years. "As soon as money gets tight, Strong lets conservation take the fall," gripes David Poch, attorney for the Coalition of Environmental Groups for a Sustainable Energy Future in Toronto.

In fact, the Manitoba native has always performed a balancing act between environmental and development concerns. Now 63, he got his start in the Canadian Arctic, where as a teenager he was a fur trader for Hudson's Bay Co. Though he never went to college, he became an investment analyst, rose to head a small oil company, and by age 35 was president of one of Canada's largest holding companies, Power Corp. Later, he became the first chairman of Petro-Canada, the national oil company. At 37, he took his first big international post, head of the Canadian International Development Agency.

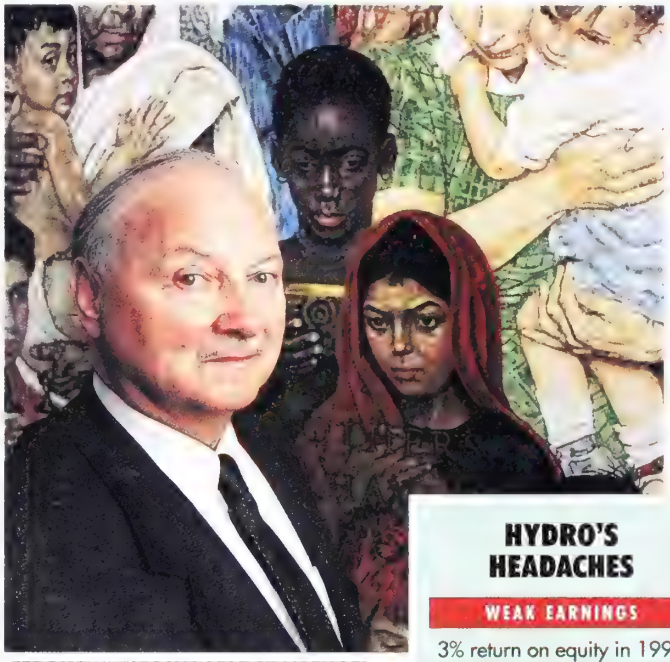
Strong credits the ecological havoc caused by mining and oil drilling for fueling his environmental concern, which dates to his boyhood in rural Canada. So when U. N. officials asked him in 1970 to organize its first environmental conference, he agreed. The conference set up the U. N. Environment Program, and Strong served as UNEP's first director. That made him an obvious choice to head the 1992 Earth Summit, which emphasized the integration of economic growth and environmental protection.

HISTORIC PACTS. Rio showcased Strong's talent for negotiation. Developing nations emerged with fewer commitments than they wanted to help finance Third World development. And environmentalists got fewer protections than they sought. But the conference made the notion of sustainable development respectable. Strong will need such peacemaking skills at Hydro to placate such customers as General Motors of Canada and metal producer Falconbridge Ltd., Hydro's top buyer of electricity. Falconbridge talks of building its own 150-megawatt gas cogeneration plant, and some of the 312 municipal utilities that distribute 70% of Hydro's electricity are considering similar moves.

Strong hopes to prevent defections by holding rate increases at or below inflation. That's an ironic stance for a man who last year argued that "the big problem [in encouraging conservation in North America] is that the cost of energy is too low." To help cap rates he will cut Hydro's bloated staff, which numbered 28,800 at yearend. But some 75% of Hydro's costs are relatively fixed. To lower those, Strong said in January that he would shelve a 1989 plan to expand the utility's capacity by 40% over 25 years. He is also likely to mothball the 3,200-Mw Bruce A nuclear station, which is due for a $2 billion refurbishing.

Strong concedes that his is a "formidable challenge." Ultimately, he says, he hopes to emphasize conservation—and environmentalists can hardly wait. "Expectations are high," says Ken Murphy, executive director of the Environmental & Energy Study Institute in Washington, D. C. "If Strong doesn't succeed, people will be very disappointed."

By William C. Symonds in Toronto



STRONG: A 'FORMIDABLE CHALLENGE'

HYDRO'S HEADACHES

WEAK EARNINGS	3% return on equity in 1991
HIGH DEBT	$28 billion
RISING ELECTRICITY RATES	Up 34% since 1989
DECLINING DEMAND	Down 4.5% since 1989
EXCESS CAPACITY	10% at peak levels

DATA: BUSINESS WEEK

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Annual income if you're in the 31% tax bracket, investing $20,000:

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1.4% is the total return for one month since inception, 11/30/92 to 12/31/92. This figure is not annualized. It includes changes in principal value, reinvested dividends, and capital gain distributions. Total return represents past performance. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. *Securities in the Fund are guaranteed as to the timely payment of principal and interest, but the insurance does not guarantee the market value of the bonds in the portfolio. A security's rating is based on the insurer's AAA rating, and no representation is made as to any insurer's ability to meet its commitments. The Fund itself is not insured nor is the value of the shares guaranteed. †Some income may be subject to state and local taxes and the federal alternative minimum tax. Chart does not represent an investment in any T. Rowe Price fund. Request a prospectus with more complete information, including management fees and other charges and expenses. Read it carefully before you invest or send money. T. Rowe Price Investment Services, Inc., Distributor, 100 East Pratt Street, Baltimore, MD 21202.

JOBS JOBS JOBS

Like commuters peering anxiously down the tracks, millions of unemployed Americans are waiting for the great job express. But the expected surge of hiring is nowhere in sight, even though business profits are up, output is growing, and the economy is recovering. Help-wanted ads are still scarce, and private job growth is plodding along at a measly 75,000 per month—with many of these temporary or part-time positions.

Corporate America has developed a deep, and perhaps abiding, reluctance to hire. The spate of downsizing announcements at IBM, Sears, and General Motors is just part of the story. The aversion to adding workers has also struck small and midsize companies, which were the mainstay of employment growth in the 1980s. "The bottom line is this is not a typical recovery, and the jobs have not been coming back," says Labor Secretary Robert B. Reich.

President Bill Clinton's economic program, set to be announced on Feb. 17, may not be able to do much to spur job growth. All across the business spectrum, the motto is: Do more with less. The U. S. economy has changed in ways that have fractured the historic link between output growth and job creation. Rather than hiring new employees, companies are working their existing ones harder. In manufacturing, which lost 188,000 jobs over the last year, those workers who remain are putting in more than 41 hours a week, the longest workweek in 26 years.

In part, this unwillingness to hire can be blamed on the erratic and undependable economy. The recovery began in March, 1991, according to the National Bureau of Economic Research, a private group that is the official judge of suc things. But since then, the economy, weighed down by defens cuts, heavy debt, and sluggishness overseas, has been able t muster growth of only 2.2%. That's far slower than any othe recovery in the last 30 years (chart). Once companies see mo convincing evidence that the recovery won't stall as it did la spring, they'll be more likely to start adding workers again

But even sustained economic growth may only bring th jobs back at half the pace of previous recove ies. It's the lethal combination of global con petition, expensive workers, and cheap con puters that has severed the link betwee economic growth and job growth. For on American companies have learned that the can't compete in world markets unless they boost productivit and keep their payrolls lean. Moreover, the rising costs o health care and other benefits are pushing up the price tag o hiring new workers. Since 1987, the cost of an average worke including wages and benefits, has rise by more than 17% compared with th average price of new business equip ment. Taking falling interest rates int account, the gap has widened by almos 40%. And plummeting prices for compu ers, in particular, have led many sma and midsize manufacturers, offices, an retailers to computerize tasks that use to be done by hand.

Clinton's expected $31 billion economic package, which wi include more infrastructure spending as well as an investmen tax credit (ITC), will provide little stimulus for job creation if is offset by deficit-cutting measures, as seems likely. And hi

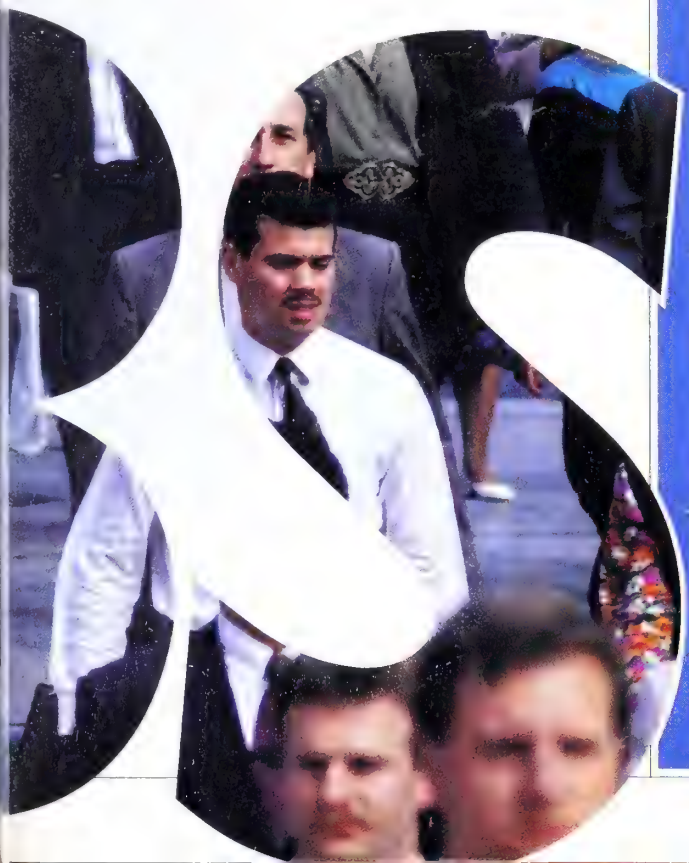
IT'S A RECOVERY WITHOUT A HEART: HIRING IS GOING TO STAY AGONIZINGLY SLOW FOR SOME TIME

gram could have the perverse effect of strengthening the g-run forces that are holding down hiring. For instance, an will make machinery even cheaper. "The ITC gives an vantage to putting capital to work rather than putting peo- to work," says David Resler, chief economist at Nomura curities International Inc. in New York. And requiring fam- leave and indexing the minimum wage could make workers n more costly to businesses.

D NEWS. The picture is not uniformly gloomy. Fewer jobs ay may be the price the U. S. has to pay for a brighter ure, say the optimists. New jobs are being created in grow- industries such as computer software and other business vices, helping cushion cutbacks elsewhere in the economy. d by trimming payrolls, companies have been able to boost ductivity, increase profits, and compete better on world rkets. Indeed, many economists argue that slow job growth ust temporary. Eventually, rising productivity would be the gic bullet that leads to higher wages and faster growth, erating a slew of new well-paying jobs over the longer il.

This rosy scenario may yet play out. But so far, it seems to more hope than reality. Although productivity growth rted at the end of 1992, it has averaged only 2.6% since the rch, 1991, start of the recovery. That's below the 3% aver- of previous recoveries. Says Robert J. Gordon, a produc- ty expert at Northwestern University: "The celebration is te premature."

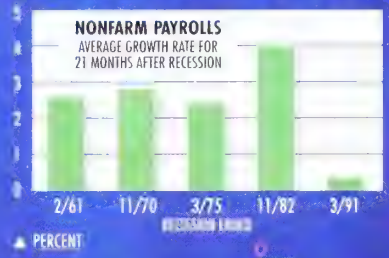
And the lack of job growth is bad news for the U. S. econo- . With jobs still scarce, consumer spending could turn slug- h, dampening the recovery. What's more, a jobless recovery eaving the U. S. even more sharply divided than before into es and have-nots. While nine million unemployed workers



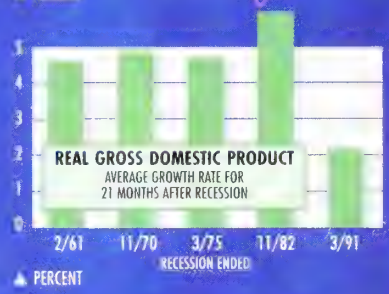
WHY JOBS ARE HARD TO FIND...

COMPANIES HAVE BEEN ABLE TO RAISE PRODUCTIVITY...

...BUT IN THIS RECOVERY THEY'RE SQUEEZING PAYROLLS...



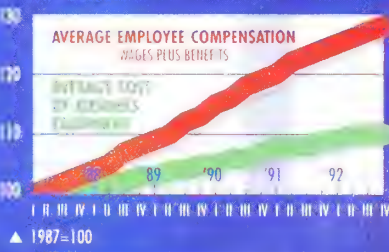
...AND OUTPUT IS LAGGING



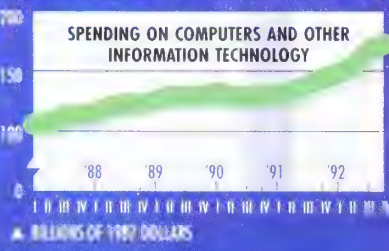
...AND WILL STAY SCARCE

THE U.S. IS MORE EXPOSED TO GLOBAL COMPETITION...

...EMPLOYMENT COSTS ARE RISING FASTER THAN CAPITAL COSTS...



...AND COMPANIES ARE BUYING LABOR-SAVING TECHNOLOGY



DATA: BUREAU OF LABOR STATISTICS, COMMERCE DEPT., BUSINESS WEEK

wait on the sidelines, the benefits of recovery are showing up as higher corporate profits and as bigger overtime payments to people with jobs. When people find work, it's often in temporary or part-time positions which pay less and have fewer benefits. "It's going to be a two-tiered society," warns Richard S. Belous, senior economist at the National Planning Assn.

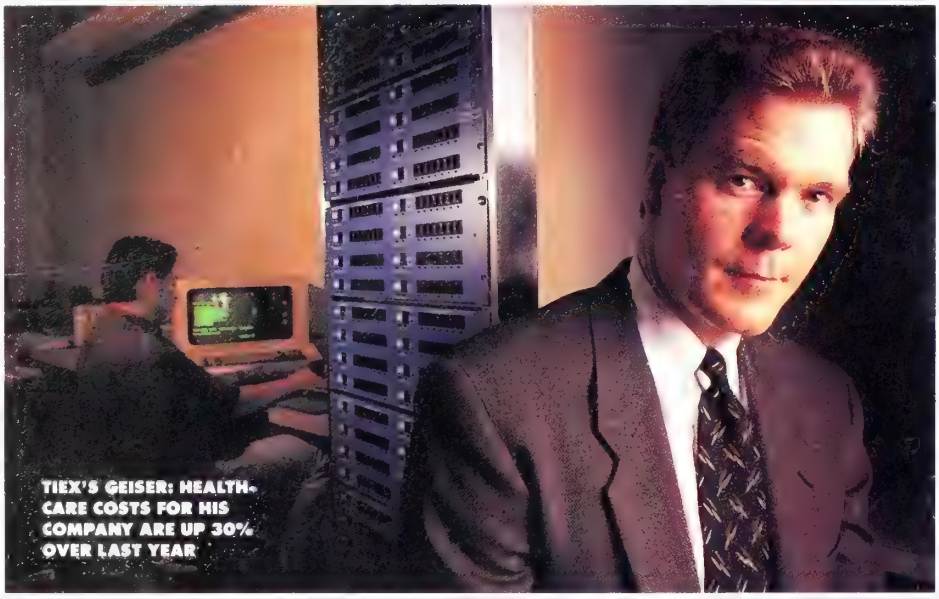
Companies that have laid off people will add workers only slowly. "We'll be hiring people, but we'll be very careful about it," says Michael T. Patton, a vice-president at Mid-American Waste Systems Inc., a solid-waste hauler whose payroll is 15% leaner than it was 30 months ago. "It's painful to have to lay somebody off."

SKELETON CREW. Other jobs are gone for good. Take Owens-Corning Corp., for example, which has cut its work force by 15% over the past three years. Recently, Owens-Corning announced plans to reopen a plant in Jackson, Tenn., that had been closed since February, 1987. The catch? In 1987, the plant had operated with nearly 500 employees, but when it reopens in 1994, it will have only

While such cost-cutting is sometim driven by competitive pressure from o er U. S. companies, more often t threat comes from foreign rivals. A much more than ever, the U. S. econo is open to such foreign competition. O measure of the impact of world marke Exports and imports, combined, now tal almost 25% of the U. S. econo That is up from only 16% just 10 yea ago.

And with the U. S. becoming more pendent on world trade, it's finding o

THE SCARY MATH OF NEW HIRES



TIEX'S GEISER: HEALTH-CARE COSTS FOR HIS COMPANY ARE UP 30% OVER LAST YEAR

The fast-food franchise down the street hires a cashier for $6.50 an hour. Cost to the owner: about $10 an hour. The business that advertises entry-level jobs at $30,000 a year is probably figuring the real cost of a new hire at close to $50,000. Is it any wonder that businesses are reluctant to add workers and may stay wary even as the economy picks up strength? From coast to coast, in large businesses and small, the math of hiring in the 1990s is pretty scary.

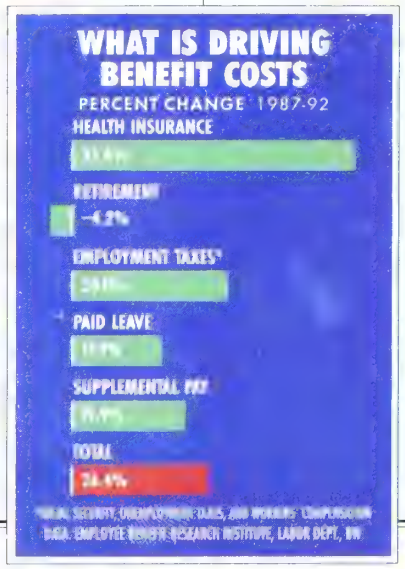
And costs are high for all of Corporate America. Over the past decade, annual spending by companies on health care has more than tripled, to $225 billion. Washington has imposed numerous mandates on business, including the 1990 Americans with Disabilities Act, which many executives worry will expose them to new liabilities and costs. Then there's the surge in wrongful-termination lawsuits alleging age discrimination, sexual bias, and other wrongs. Add it all up, and putting workers on the payroll turns out to be expensive.

These steep costs are discouraging smaller companies—the engine of job creation in the 1980s—from ramping up hiring. It's true that since 1988, such companies, with fewer than 500 employees, have created almost all new private-sector jobs. But this hasn't been happening at a fast enough pace to absorb all the workers losing jobs at larger companies. One important reason: Since 1989, employment taxes and benefits for minimum-wage workers at small businesses have jumped by more than 15%, adjusted for inflation, says Lowell E way, an economist at Ohio Univ Adds Sam Peltzman, an economist University of Chicago business "People who say there is no tr between regulation and employme smoking something."

MORE GLOOM. Many executives that another hike in hiring costs is works. The Clinton Administrati promised an activist legislative a including health-care reform, an ness expects it will pick up much tab. Southwest Airlines Co., the n only major airline to show a pro year, estimates the Administratio cent family-leave bill could cost th pany over $5 million annually flight attendants alone. "If busi believe that these costs are going up in the future, they will facto into their hiring decisions today," William Dennis, director of resea the National Federation of Indep Business, a Washington-based sma ness trade group.

There's no question that many tions help the country achieve de goals. Worker protected from by the Occupa Safety & Healt ministration. N savings, ho meager they m today, have be hanced by the fits that flowe pension account wrongful-termi lawsuits have down on a lot o agement abuse.

But social ma have so prolif that rather tha mote worthy



ıat the Europeans learned in the 80s: As companies try to boost produc- ity to compete in world markets, the k between jobs and output disappears, d employment can suffer. France, for ample, grew at a respectable 3.1% an- ally during the second half of the 30s. Yet over the same period, employ- ent in France only grew at a sobering % pace.

At the same time that competitive essures have increased, the soaring st to business of health care and other nefits has made American workers ore expensive. Since 1987, benefit costs ve risen at a 6.2% annual rate, far faster than inflation. Over the same period, the cost of business equipment and machinery has only risen at an annual rate of 1.8%. Moreover, this understates the cost advantage of machinery, since falling interest rates have cut the cost of borrowing capital for investment by about two percentage points.

SLIM MARGIN. It's no wonder companies would rather buy machinery than hire additional workers. That's especially true for small businesses, which don't have much margin for error. Small-business owners "put people on very carefully, because you take on a big benefit package when you put on new people," says Robert S. Lee, owner and president of Hotwatt Inc. in Danvers, Mass., a company with $8 million in revenues and 180 workers that makes electric-heating elements for industrial machinery.

As workers become more expensive, companies have turned to computers as their prices plummet. Investment in information technology has surged 31% over the last two years, an enormous substitution of capital for labor. The toll has been heaviest on clerical and technical workers, whose tasks can most easily be computerized.

One area where computerization is making big inroads is wholesale trade,

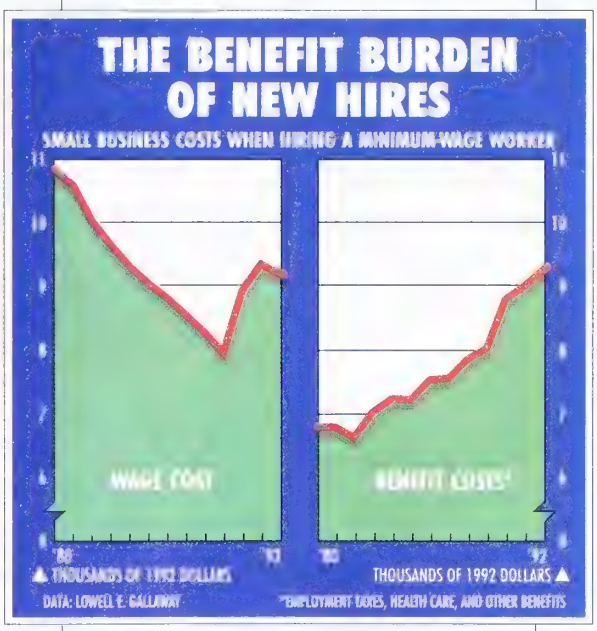
ave become costly hurdles that ers seek to evade. As "the cost of has fallen relative to the cost of specially relative to the incremen- t of benefits," companies may substituting machines for work- ys William Dudley, economist at n Sachs & Co. Benefits are being d, too.

Botsford, president of World- Processing, a steel service center tside Pittsburgh, has 33 employ- king two shifts and will hire an- 10 workers when the company third shift in June. Clearly, s is strong, but Botsford e 50-employee threshold be- new family-leave rules kick d keep him from from ex- g past 49 employees for me. "There are a lot of dis- es to hiring new people,"

ım P. Geiser, founder of omputer/Communications s Inc., a Dallas-based mak- ccessories aimed at the IBM ıputer market, is also wor- EX has 26 full-time workers looking for four more em- , since sales could top $4.5 this year. But health-care e up 30% over last year, and is concerned about more es from Washington. "As an increasing percentage of ofits being given to things ıefits, compliance, and so on, lates into reduced investment in uture of this company,"

EMPS. The health-care cost explo- everberates throughout the job . Most of 1992's 5.3% hike in bene- ts, compared with a 2.8% rise in and salaries, came from the are tab. Thus, many companies een cutting back on coverage. participation in employer-provid- th-care plans at medium-size and ompanies dropped from 90% in 80% in 1991 as these companies made employees pick up more of the tab, according to a Labor Dept. survey. To avoid paying benefits, a growing number of companies are using more part-time and temporary workers. Observes Robert B. Reich, the Administration's Labor Secretary: "The generous benefit packages of yore have eroded considerably." Still, the health-care bills rise and rise.

The high cost of hiring can be paid by workers in the form of lower wages, fewer jobs, or both. About 86% of the average increase in employer workmen's compensation costs for 10 job classifications was shifted onto employees through lower wages between 1979 and 1988, according to a study by economists Jonathan Gruber of Massachusetts Institute of Technology and Alan B. Krueger of Princeton University.



And John A. Young, formerly CEO at Hewlett-Packard Co., recalls arguing with some in the new Administration against Clinton's campaign proposal to require companies with more than 50 employees to spend 1.5% of payroll for continuing education and training. It would turn into a huge corporate expense that would cost jobs. True, HP and many other companies already spend more than that on worker training. "But you'd have to have rules on what kinds of training qualified, and you'd have to fill out forms endlessly, and you'd probably still run into trouble with the government, and then you'd have to hire lawyers to defend yourself. It would be a huge headache even for companies like Hewlett-Packard," says Young. The Administration has dropped the idea of mandating training by business.

Still, there are a lot of laws out there. On federal regulations alone, the nation's gross bill was $564 billion in 1992, estimates Thomas D. Hopkins, now at Rochester Institute of Technology and formerly an economist in both the Carter and Reagan Administrations. Some economists believe business pays as much as half the bill.

State-court rulings have also had an impact on hiring and firing practices. Only a decade ago, courts in all but 13 states honored the century-old practice of letting private-sector employers "fire at will." Yet today, most states have expanded employers' liability in wrongful-termination lawsuits. "There is a greater sense in 1993 than in 1983 that some workers have a property right to their job. It's not the civil service or Europe yet, but it might look that way to some employers," says Gary Burtless, an economist at the Brookings Institution.

In a complex $6 trillion economy, many factors undermine job creation. The hardest to overcome is the creeping cost to employers of meeting worthwhile social goals. The challenge now is to devise cheaper ways to get a safer workplace and a healthier population. Otherwise, to get America's job machine revved up again may take years.

By Christopher Farrell in New York, with Paul Magnusson in Washington, Wendy Zellner in Dallas, and bureau reports

ERIC HOFFMANN/BW

When I run what do I need?
A plate of carbs on which to feed.
sun or moon,
shorts or pantses,
a shoe with
techno-air advances!

So technically my shoe's the most.
One-third more air it can boast
With all that whooshy, cushy air
Air Max cushions everywhere.

Run on dirt,
run on sand
Air Max® makes it
soft to land.
I like to run,
It makes me smile.
I think I'll go another mile

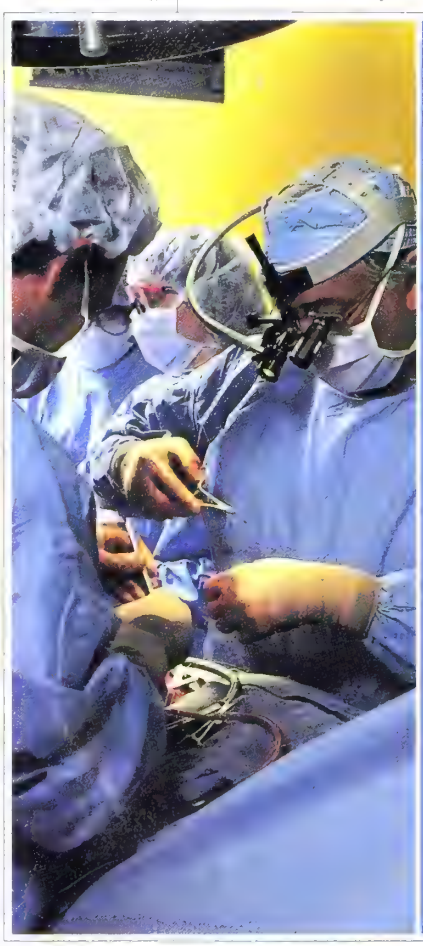
NIKE

which has lost 53,000 jobs over the last year. For example, FoxMeyer Corp., the third-largest pharmaceutical distributor in the U. S., won't be adding many jobs any time soon. Instead, it's investing heavily in warehouse automation and information technology to boost productivity. "It isn't a surprise to me that the employment numbers aren't going up as people might expect," says Lawrence J. Pilon, senior vice-president of administration. "We're going from an economy where there are a lot of hard-working people to one where there are fewer, smart-working people."

The same is becoming true in the insurance industry, where 33,000 jobs have disappeared over the last year. At San Antonio-based USAA, job creation has slowed significantly, from about 11% several years ago to less than 2% this year. Instead, the company is boosting productivity at 4% to 5% annually by investing in such information technology as imaging systems that store customer correspondence in computer files rather than paper files. That investment alone freed 125 workers for other jobs. "Competition just gets tougher and tougher," says William B. Tracy, senior vice-president for human resources. "You have to have your expenses as low as possible."

TUBE POWER. The same philosophy of using computers instead of people filters down to the little guys as well. Until recently, "small and medium-size businesses have not been interested in investing in capital equipment," notes Robert T. Calvin, a lecturer at the University of Chicago business school and a small-business consultant. "And that created a lot of jobs." Now, though, purchases by small companies are helping propel the PC buying boom. "By adding a computer system, they can increase gross revenue without adding a person," says Aaron Goldberg, CEO of InfoCorp, a market-research company that tracks personal-computer purchases.

To be sure, the same forces that are destroying jobs are creating others. The export boom helped keep the economy from collapsing during the recession. The rise in health-care costs, which has made workers more expensive, has spawned over 240,000 new jobs in the health-care industry over the last year (table). The computer explosion has added tens of thousands of jobs in the software industry. And it's not just the big companies such as Microsoft Corp. that are hiring. Take Mastech Systems Corp., a fast-growing $20 million software company outside Pittsburgh. "We can't do enough hiring," says Chairman Sunil Wadhwani. He says the company, which now employs 450 people in the U. S., will hire 100 to 200 more workers this year.



Some computer-equipment and chip makers are expanding,too. On Feb. 3, Read-Rite Corp., a $389 million maker of disk-drive recording heads, announced that it will build a plant in Fremont, Calif., creating up to 400 new jobs. Intel Corp. will invest $400 million in a plant in Santa Clara, creating 250 new jobs. And Cirrus Logic Inc., a company that makes chips that add graphics and telecommunications capabilities to PCs, expects to grow by 30% to 35% over the next 15 months, up from about 1,000 employees now.

The employment gains in the computer, health-care, and export-related industries, however, are not enough to overcome the drag that has kept job grow low. Even successful makers of compu er equipment are being careful abo hiring. "Maintaining conservative er ployment is the best way to go," sa Peter C. Gotcher, president and CEO Digidesign Inc., a nine-year-old, priva Menlo Park (Calif.) maker of digital a dio gear. "There's a mood in [Silico Valley that you really need to keep le and keep staffing down."

Even when companies have work th needs to be done, they often use tem rary workers to avo paying the cost of ben fits. Over the last yea employment by tem rary help agencies h soared by a staggeri 240,000. Companies li FoxMeyer are usi more part-time and te porary employees, whi trying to maintain a st ble core of full-tin workers. And som times corporations ta more aggressive me sures to bring down e ployment costs. Ban America Corp., f example, is cuttin hours for thousands tellers, which will r duce benefits for man

In addition, comp nies are often usi outside consultant many of whom we laid off earlier to low their costs. "There's lot more of this o sourcing, finding peop with certain experti that you can share a not have as a full-tin expense," says David Pye, an out-of-wo Boston marketing exe utive who lost jobs at Prime Comput in 1991 and at JWP Information Servic in 1992 because of restructurings.

For businesses trying to prosper today's world economy, this parsimo may be logical. Indeed, it may yield b gains for the U. S. in the long run. B that's little consolation for the millio of Americans, unemployed or strugglin to hold onto their jobs, who are payi the price to boost the country's compe tiveness and productivity. It will be herculean task for Bill Clinton to ma sure they reap the rewards.

By Michael J. Mandel in New York, wi Wendy Zellner in Dallas, Robert Hof San Francisco, and bureau reports.

Cover Story continues on page 7

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HOW MUCH GOOD WILL TRAINING DO?

Spending to upgrade the work force may pay off—eventually

When President Clinton addresses Congress on Feb. 17, he is sure to talk a lot about a four-letter word on the minds and lips of most Americans these days: jobs. The President will launch a two-pronged jobs program: a short-run, $31 billion macroeconomic stimulus package to crank up the nation's job machine, and a longer-term plan for upgrading U. S. workers' skills and, ultimately, their wages.

What impact will these proposals have on jobs, in the wake of this recovery's unusually sluggish employment growth? The stimulus program will reduce the jobless rate only slightly, most experts say. And even that gain might be offset by jobs lost from defense cuts, civil-service layoffs, and higher taxes on energy and income. The Administration's pronouncements notwithstanding, the overall macro program will do very little to create new jobs over the next few years.

At the core of Clinton's long-term jobs plan are the microeconomic programs to increase training and education. And here, too, the immediate results may be disappointing. Schemes to upgrade the work force actually could hurt the short-run jobs picture. But greater human capital investments should pay off in spades, both in higher wages and in job growth, three to five years from now. "It's a favorable trade-off between any jobs lost and the long-term economic growth you get from the higher skills," says Dale W. Jorgenson, an economist at Harvard University and a leading productivity expert.

BUILDING TRADES. The stimulus package will have the most immediate effect. It is likely to include some $15 billion for infrastructure, education, and training, plus $15 billion for investment tax credits. Every $1 billion spent on construction typically creates roughly 25,000 jobs, says David Wyss, research director at DRI/McGraw-Hill, a unit of McGraw-Hill Inc., which owns BUSINESS WEEK. Since training dollars may produce somewhat fewer jobs, a $15 billion expenditure might create 300,000 to 400,000 positions. And these would be stretched out over two or more years, say Wyss and other economists. An additional 200,000 or so jobs would come from the ripple effect when the workers spend their paychecks and lift demand for other goods. A $15 billion tax credit also could bring some 500,000 jobs.

So the stimulus part of the package could create nearly a million jobs in the next few years. The rub, of course, is that the Administration will be cutting the budget deficit by both raising taxes and cutting spending. For instance, an additional $10 billion-a-year defense cut would cause further job losses in related private-sector industries. And consider, too, that the President plans to slice 100,000 federal jobs. So on a net basis, the job gains "could be zero or negative," says Marvin Kosters, an economist at the conservative American Enterprise Institute.

While Clinton's macro program is being well received by the markets, some of his micro plans have met stiff resistance in Corporate America. Companies have been especially upset about Clinton's campaign proposal—since dropped—to require all companies with 50 or more employees to meet a 1.5% training mandate. Companies that didn't meet this requirement would pay an equivalent amount into a fund used to set up regional training centers. U.S. companies now spend about $30 billion a year on training, most of which comes from less than 10% of all companies, according to the American Society for Training & Development (ASTD) in Alexandria, Va. Because of the employer objections, the Administration backed off. Instead, Labor Secretary Robert B. Reich may try jawboning or offering employers' tax incentives to train more. "The [1.5%] goal is indisputably there," he says. "After all, there already are profit incentives for doing it right."

BIG RETURNS. In the long run, most economists agree with Reich that training can be an investment that more than pays for itself. Half a dozen studies done in the late 1980s conclude that company-sponsored training programs boost workers' wages by 4% to 11% over the long run. Other studies found that the productivity gain from workers' high-

CLINTON'S JOBS PROGRAM

The President is likely to propose numerous policies to boost jobs and worker skills on Feb. 17. Government or employers would foot the bill. Here's an assessment of some proposals now being considered

JOB CREATION

Spending and tax credits of up to $31 billion

Creates 1 million new jobs over several years but will be offset by cuts in defense and federal employment

APPRENTICES

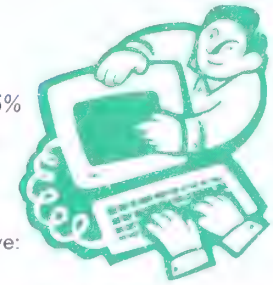
Set up school-to-work programs for 16 to 19-year-olds

Could take some jobs from adult workers if programs cover many of the 6 million teens who need them

TRAINING

Get employers to spend 1.5% of their payrolls on training

Would raise some employers' costs, which could slow job or wage growth. An alternative: Tax credits for training



ills more than pays for the higher la-
r costs. For instance, a 1989 study in
Journal of Labor Economics of
ge employers in the South and Mid-
st found that a 10% increase in spend-
on training produced a 3% boost in
oductivity over two years, which was
ice as large as the pay hikes caused
the training.

As a result, many economists believe
at higher corporate training budgets
uld create more jobs overall, even if
ployers were to end up footing the
l. A 1.5% training expenditure would
t companies an extra $21 billion a
ar and could cause them to restrain
ges and hiring in the short run. But it
uld also generate $63 billion in new
nomic activity and 2.5 million new
s over three to five years, estimates
thony P. Carnevale, the ASTD's chief
nomist, who is a candidate for the
bor Dept.'s top training post. And
n opponents of a mandate agree with
goal. "We don't like the idea of gov-
ment forcing companies to spend
% on training, but employers must
est even more than that, or they
n't be able to compete," says Phyliss
en, a policy expert at the National
sociation of Manufacturers (NAM).

N DREAM. Other Administration ideas
improving skills also involve trade-
s between upfront cost and long-term
n. Nearly everyone seems to agree
t the U. S. needs some type of ap-
nticeship program. The goal is to
nbine classroom schooling with on-
-job skills training for teenagers who
don't finish high school or go on to community colleges or vocational schools. In the past several years, the Labor Dept. has doled out 22 contracts to help various organizations start pilot apprentice programs. Clinton is likely to build on that effort, aides say. He probably will double or triple the $100 million a year that former President Bush said last fall he wanted for apprenticeships.

Although the Administration apparently hasn't decided how many young people ultimately should participate, if the numbers reached the hundreds of thousands, it could mean the displacement of some workers or lower hiring by employers. And that figure is the goal of some proponents. Many point out that in preunification Germany, the model to most experts, 70% of teenagers are enrolled in apprenticeships.

In the U. S., there are some 5 million teens in the last two years of high school, plus a million or so dropouts. Getting 10% of them involved would mean 600,000 jobs. Of course, these jobs would be part-time and focused primarily on skills-building. Labor's pilot contracts specifically forbid companies from hiring apprentices at the expense of existing workers. Still, "if you really start talking about hundreds of thousands of apprentices, it would be hard to stop some displacement," concedes James D. Van Erden, head of Labor's apprenticeship program.

Clinton's national-service idea might displace some workers, too. His campaign put out a fairly detailed plan last year that would allow college students to perform up to two years of work in exchange for as much as $20,000 in aid. The program would cost up to $8 billion a year after five years and could require some 250,000 national-service slots. Cities and states would hire the students to do anything from clean parks to work as teacher's aides. Like the apprenticeship plan, the program would be designed for a minimal impact on public employees doing similar jobs. But even supportive union leaders, such as American Federation of Teachers President Albert Shanker, concede that some displacement might be inevitable.

PARENTAL PLUS. Many executives say, and most economists agree, that the newly enacted family-leave law will add to company costs. But a new study casts doubt on that view. According to the Families & Work Institute, a nonprofit New York research group, the hiring and training costs to replace a nonmanagerial employee typically average 75% of a year's pay. However, filling in for an absent parent costs only 32% of the annual salary. So, rather than fire the employee, it pays to shift staff and make other short-run changes to accommodate the worker on leave. If companies do it right, parental leave actually may save money—and jobs.

There's no question that investing in employees' education before they get to the workplace has enormous payoffs. In 1989, Jorgenson found that an extra year of high school adds an average of $96,000 to a male worker's lifetime income, and $51,000 to a female's. And last year, a survey of identical twins by two Princeton University economists found that an additional year of schooling for one twin raised his or her wages by 16%.

The story is the same for college. A 1988 study found that the financial benefits to society exceed total public and private spending on college by 12%. For the individual, the lifetime rate of return from an investment in college averages 10%. As Reich told the Senate at his confirmation hearing in early Jan.: "The overarching goal is not only more jobs for our citizens, but higher-wage jobs."

That may be cold comfort to anyone looking for a job today. But many economists believe that the upfront pain of human-capital investments will bring a healthier economy down the road. Indeed, the larger issue goes beyond a better-skilled work force. "It's not just training we're after," says the ASTD's Carnevale. "Ultimately, we're trying to modernize American workplaces and make U. S. companies more globally competitive." The question now is whether America is willing to pay the price to get there.

By Aaron Bernstein in New York, with Paul Magnusson in Washington

HER
JCATION

t up to $20,000
ollege, to be repaid by nation-
rvice with cities or states

up to $8 billion a year. Could
e makework jobs or displace
workers such as teachers

SAFETY NET

Extend unemployment insurance for an additional six months, create local employment boards to match workers with jobs

Drives up budget deficit. May be unnecessary if recovery accelerates

ADVANTAGED WORKERS

t spending on low-
ne and dislocated
ers and require
welfare recipi-
to work

d create some
jobs, but unemploy-
rolls may climb if
people join the labor force

MINIMUM WAGE

Raise, then index, minimum wage

May slow job growth somewhat but could help to reduce low-paying jobs in favor of high-wage ones

DATA: BUSINESS WEEK

MANAGEMENT

THE FLIGHT OF THE MANAGERS

The brain drain at ailing giants is making their problems worse

For Russell A. Nagel, the moment of decision came last spring, when his boss at Westinghouse Electric Corp.'s Knoll Group asked him to move to London. Such requests were common. And the 27-year veteran, who started at Westinghouse as an industrial engineer before moving over to Knoll, the company's office-furniture division, had never balked. Nagel and his family had already moved several times before he was named president of Knoll's North American and Japanese operations in 1990.

But this time, Nagel hesitated. In the months leading up to the offer, Nagel, 55, had been wracked by doubts about Westinghouse's future. He and other executives feared that the collapse Westinghouse's credit subsidiary cou overwhelm the rest of the company. Ar Pittsburgh headquarters buzzed with r mors that Westinghouse Chief Exec tive Paul E. Lego would be ousted.

PARALYZED. Nagel wondered whether move abroad was risky. Soon, he w questioning whether he should even st at Westinghouse. In Oct., 1992, Nag accepted an offer to become CEO of Bat Inc., a maker of coat hangers based Zeeland, Mich. "The element of unce tainty and turmoil made me feel mo comfortable in my personal decision n to relocate, but to do something else," h says.

Nagel is far from the only top exec tive to jump off a drifting ship recentl The wave of CEO ousters at big corpor tions such as IBM, American Expres and Westinghouse has mesmerized th business community. But these shake

HOW TO KEEP THE BEST AND BRIGHTEST

Struggling companies are vulnerable to attack by headhunters who find them easy to raid for top talent. How does a company protect its best human assets from poachers? Here's what management experts advise:

- Identify the most talented executives and explain that they have a strong future at the company
- Hand them special bonus incentives or stock options
- Enrich the jobs of key players by getting them directly involved in the senior management team's efforts to turn around the company
- Inform top managers about all major developments to give them a sense of their importance
- Guarantee key players that they will be rewarded for their loyalty by insuring that they collect the full value of their stock options, retirement benefits, and pensions if they lose their jobs under a new CEO

DATA: BUSINESS WEEK

ants are also suffering a less visible, oubling loss of executive talent.

True, plenty of managers have been ked to leave as part of a broader ›wnsizing at these companies. But any prized top execs are abandoning cure positions. Some are prompted by ›rries about their own declining mar-·tability as the travails of their long-ne corporate homes grow more vis-le. Others are frustrated at organi-tions so transfixed by the final agonies the outgoing boss that they can no ıger act. "It's like being a deer caught the headlights," says Al Irato, a for-er American Express Co. senior vice-esident, now CEO of Hypercom Inc., hardware and software vendor. "Until ›u know who's at the top, there's a mporary paralysis that sets in."

JTSIDE HELP. While AmEx, Westing-·use, and IBM deny that they are suf-·ing any harmful effects, troubled com-.nies are losing many valuable ecutives. That brain drain has omi-·us implications: Even after the situa-›ns stabilize, new CEOs may find that eir companies no longer have the key ayers they need to pull off a rescue. he very people you need are the ones ·eady out the door," says Robert B. ımb, professor of finance and manage-ent at New York University's Stern hool of Business.

IBM, for one, has lost nearly an entire ·neration of fiftysomething managers. ost prominent were two heirs appar-t to CEO John Akers, C. Michael Arm-·ong, former chairman of IBM World ·ade, and George Conrades, former nior vice-president in charge of U. S. les and marketing. Mainframe chief ırl Conti and quality czar Stephen hwartz also left last year.

As the top ranks thinned late last ·ar, IBM brought back two retired IBM ·terans, Kaspar V. Cassani and Paul Rizzo. All told, IBM has lost more than ·o-thirds of the 60 senior managers it ted in its 1985 annual report. Less ·ll-known but more worrisome is the ›s of technical staffers. "There are just ores of ex-IBMers scattered around chnology companies in Silicon Valley d other areas," says one headhunter.

Like IBM, Sears, Roebuck & Co. has ·en losing ground—and image—to ag-essive competitors. As a result, it may ıd itself lacking the talent it needs to ıll off a turnaround. "Sears started at-ıcting second-rate people, and the good ·ople left," says analyst Peter Siris of ›S Securities Inc. That may be why ›O Edward A. Brennan was forced to ›k outside for help last summer, when recruited Arthur Martinez from Saks fth Avenue to try to fix Sears' retail-ɡ business.

Many companies have inadvertently ·couraged good people to leave with

FOR THIS AMEX ESCAPEE, THERE'S NO PLACE LIKE MINNEAPOLIS

Leo Toralballa was on the fast track. Starting in 1987 as a marketing executive at American Express Co.'s personal-card division, the native New Yorker moved easily up the ladder. By 1990, Toralballa, a Princeton University graduate and a mathemetician by training, wound up in charge of AmEx's lucrative corporate-card program for small companies.

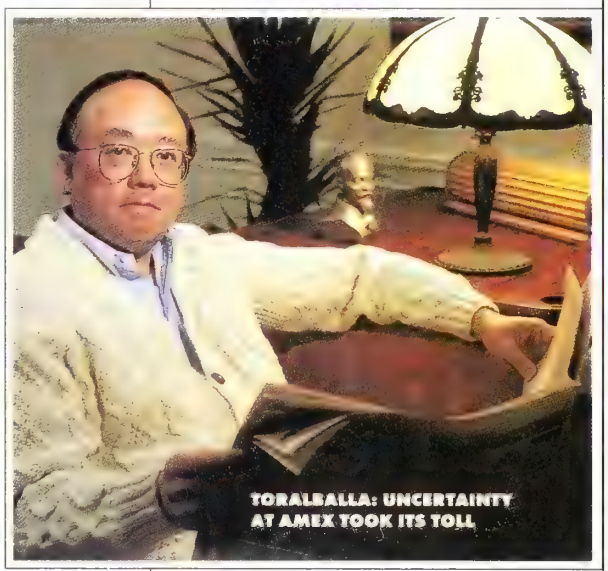
Along the way, he won kudos from his supervisors. Thanks in part to his marketing skills, AmEx was able to hold off repeated challenges from business cards offered to small companies by Visa and MasterCard. Colleagues were convinced that Toralballa was destined for even bigger assignments and richer rewards at AmEx's flagship, Travel Related Services Co.

But in the end, it wasn't meant to be. Toralballa walked away from AmEx, resigning in May, 1992. Now he heads marketing at Fingerhut Cos., one of the nation's largest catalogers, selling merchandise to middle- and lower-income families through direct mail. It may be far less glamorous, but the 45-year-old executive says he and his family have settled comfortably near Fingerhut headquarters in Minneapolis. His only regrets: leaving behind the Metropolitan Opera, his home in Greenwich, Conn., and the Sunday edition of *The New York Times*.

PAPER PROFITS. Toralballa describes his job change in terms of "relative velocities." Fingerhut, he believes, owns its market niche, while American Express faces an onslaught of bank cards. AmEx's profits tumbled 42%, to $461 million in 1992, while revenues rose only 4%, to nearly $27 billion. By contrast, Fingerhut's sales, at $1.6 billion, are less than one-fourth of AmEx's—but they're rising briskly, up 14% in 1992. Earnings rose 15%, to $62 million.

Those results have already paid off for Toralballa. In the six months he has been there, Fingerhut stock has climbed from 27 to 37, earning him a tidy paper profit on his stock options. "My wife and I talked about where we wanted to be financially in 5 to 10 years," he says. "The new job had a high probability of giving us a fairly special position."

Besides the lure of Fingerhut, Toralballa says, AmEx's ongoing corporate upheaval made life in his old job increasingly difficult. Even though the corporate-card business continued to flourish, Toralballa wasn't immune to the prevailing uncertainty that seemed to grip AmEx. Morale had slipped in recent years because of poor profit performance. And questions over who would succeed James D. Robinson III as CEO were distracting the company and its management. "Is there an announcement coming? Is a memo going out? Sitting around with the king on his deathbed, no one is thinking about strategy," says Toralballa, recalling the confusion that seemed part of everyday life at TRS. AmEx officials declined to comment on Toralballa's departure. But they say the recent appointment of Harvey Golub as CEO has ended any uncertainty at TRS.



TORALBALLA: UNCERTAINTY AT AMEX TOOK ITS TOLL

DOUG HUTSON

Although Toralballa still believes AmEx will eventually emerge from its current woes, he readily admits that reinvigorating AmEx's card business will be a painful process. "It won't be easy, and it won't be pleasant," he says. "It's sort of like entering World War II. There will probably be some significant gains for those who survive, but a great many will wither in the process." Toralballa, for one, decided not to stick around to find out which category he falls into.

By Leah Nathans Spiro in New York

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broad offers of early retirement and j buyouts. Since 1986, Big Blue has o fered a series of such plans that ha prompted the exit of some 100,000 e ployees, or 25% of its total 1985 roste At least 25,000 more IBM employees a slated to be laid off in 1993. The comp ny didn't lose just the deadwood. Sa Byron Quann, former IBM group direct of marketing communications: "Peop who felt they were on the ball and h skills and abilities—those were the on emboldened to leave."

And headhunters are quite happy help them do so. "Struggling compani

Offers of early retirement encourage valued workers—not just deadwood—to leav

are vulnerable. I'll confess, that's o of the first places I will look for talent people," says Steven A. Seiden of exec tive-search firm Seiden Associates New York.

IBM says it won't permit talent staffers to accept buyouts or early r tirement and claims it denied such pac ages to more than 600 valued employe last year. "The majority of people w left are in the bottom half of our pe formance rating system," says an IB spokesman.

Other valued executives jump sh because they figure the new captai will want their own crew of longtim associates whose loyalties and capab ities they're sure of. That's especial true in turnarounds, where CEOs do have the luxury of time to produce r sults. "It's common knowledge a CE will want their own team at the seni level," says Max Messmer, CEO of Robe Half International Inc., a headhunti firm. At IBM, for example, the prevailin wisdom among executives at its Armo (N.Y.) headquarters is that Akers' r placement will want a new managem team.

TAINTED. Others leave out of sheer exa peration when they find they can't g their jobs done. Westinghouse's Nag complains that much of his time at Kn was devoted to morale problems rath than to fostering sales growth. He r calls spending hours calming a juni executive who had his savings tied up Westinghouse's sinking stock. "You' dealing with those kinds of issues dail and not dealing with some of the tr business issues as you should be," sa Nagel.

And when the boss is in troubl some managers simply lose faith th

r employer can tackle its problems. es Garrity, the 46-year-old former l of IBM's domestic advertising, says pposed Akers' 1992 strategy to split company into 13 parts. "I did not e a lot of confidence in the game , that it would yield meaningful re- s in the next few years," says Gar- now director of worldwide advertis- for Compaq Computer Corp.

s a company's problems grow worse, utives may be tempted to leave just void being tainted by them. That's ecially true at companies such as eral Motors Corp., where a quick around seems unlikely. GM's many s are so widely known that even really good people are painted with same brush," says Paul W. Czamans- president of Compass Group Ltd., a ningham (Mich.) recruiting firm. e times out of 10, clients will pick eone with Ford experience rather GM experience."

CK CARD. Whatever the motivation, loss of key executives can be painful. Westinghouse, the defection of four or managers in 1992 fueled the per- ion that Knoll was sinking fast. , its sales were lagging, but West- ouse was embarrassed at the recep- it got when the company tried to the unit in November, 1992, to raise y needed capital. Westinghouse ed Knoll, which has a book value of million, off the block in January receiving no offers.

imilarly, analysts are concerned t a steady drain of marketing talent AmEx in recent years such as the of marketing director Morris A. is. They worry that the departures severely weakened Travel Related vices, which includes the core card ness. The company has even had to g back former TRS head Aldo Pa- , who retired in 1990. The deple- of its marketing ranks, says card-in- ry consultant Donald Auriemma, left AmEx with "a misdirected ad paign and no clear strategy." An Ex spokeswoman says the company y have lost good people over the s, but we have enormous strength arketing."

onically, the high-profile woes at big panies may mean the brain drain soon slow down. Jeffrey A. Sonnen- director for the Center for Leader- & Career Studies at Emory Univer- in Atlanta, says most brain drains r before a crisis becomes public. come? Managers who leave early re called alumni, he says. Those wait until later get called some- g less marketable: refugees.

y Leah Nathans Spiro, with John Byrne and Bart Ziegler in New York, ia Mallory in Pittsburgh, and bureau rts

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WHAT TO DO ABOUT THE DOW

A few proposals for making the index better reflect the economy

It was heralded in every newspaper and financial publication the world over: On Feb. 5, the Dow Jones industrial average rose to 3442, an all-time high. For investors everywhere, it was a stirring sign of the strength of equities. But for growing numbers of market-watchers, the reaction could be summed up thusly: "So what?"

The cause of this dismissiveness is not the hot-to-trot market but rather its most popular barometer—the Dow Jones average itself. The longtime preoccupation of the investment world—and media—with the Dow is seeming increasingly misguided. To begin with, the 30-stock average has lagged considerably behind the broad market in the most recent rally (BW—Feb. 1). And in light of the travails that are besetting a number of Dow components—most recently Sears, Roebuck & Co.—this gauge seems strange indeed as a "mirror" of the U. S. economy.

Has the Dow lost its relevance? Should it be overhauled or replaced? More and more, the answer appears to be yes. "The concept that 'the market is the Dow' simply isn't true and has to be changed," asserts Mark Liebovit, a leading technician and editor of *The Volume Reversal Survey* newsletter.

OUT OF WHACK. To be sure, Dow-bashing is an old pastime on Wall Street. Dow Jones & Co. maintains that recent complaints are nothing special—and that the Dow never claims to be more than what it is, an average of the stock prices of 30 very large companies. "It's not a hot-stock or growth-stock index. It's an index of large industrial companies"—and does a creditable job of accurately reflecting the economy and the markets, asserts John A. Prestbo, markets editor of *The Wall Street Journal* and one of the Dow's overlords.

But critics say the Dow is increasingly out of whack with the economy—and the statistics bear them out (table). The Dow vastly overrepresents the capital goods and energy sectors of the market and gives too much attention to troubled cyclicals and such phlegmatic issues Woolworth Corp. and International per Co. Meanwhile, it pays short sh to financial and service compan "You've got almost one-third of the I stocks in a restructuring mode— American Express, Bethlehem St Sears, Westinghouse, Boeing," s Robert H. Stovall, a veteran W Streeter and academician who is p dent of Stovall/Twenty-First Advisor New York investment firm.

So what should be done about Dow? Well, investors can simply ign it and refocus on broader market gau such as the New York Stock Excha Composite Index or the Standard Poor's 500-stock index. (S&P is owned BUSINESS WEEK's publisher, McGraw Inc.) But old habits die hard. It ma

THE DOW

*The 30 stocks of the Dow Jones industrial average**

[illegible]	IBM
[illegible]	INTERNATIONAL PAPER
[illegible]	J.P. MORGAN
[illegible]	McDONALD'S
[illegible]	MERCK
BOEING	[illegible]
CATERPILLAR	PHILIP MORRIS
CHEVRON	PROCTER & GAMBLE
COCA-COLA	SEARS ROEBUCK
DU PONT	TEXACO
[illegible]	UNION CARBIDE
EXXON	UNITED TECHNOLOGIES
GENERAL ELECTR[illegible]	WALT DISNEY
GENERAL MOTOR[illegible]	WESTINGHOUSE
[illegible]	WOOLWORTH

*STOCKS ON THE DOW ARE SHOWN IN BLUE IN ALL TABLES

THE PROBLEM

The Dow doesn't reflect the economy

SECTOR	REPRESENTATION PER SECTOR: ECONOMY*	DOW JONES INDUSTRIALS	S&P 500
CAPITAL GOODS	4.8%	[illegible]	5.0%
CONSUMER DURABLES	3.4	6.6	3.2
CONSUMER NONDURABLES	32.6	27.8	36.0
ENERGY	7.7	12.5	10.7
FINANCIAL	14.9	5.9	10.9
MATERIALS	11.5	14.3	9.3
TECHNOLOGY	9.9	19.0	9.3
TRANSPORTATION	1.9	0	2.0
UTILITIES	13.3	0	13.6

*AS MEASURED BY THE 5,000 PUBLICLY TRADED COMPANIES IN THE WILSHIRE INDEX

THE SOLU

How four market watche would change the index

Dump these stocks...

ALCOA	TEXACO
CATERPILLAR	UNION CARBIDE
CHEVRON	UNITED TECHNOLOGI
EASTMAN KODAK	WESTINGHOUSE
GOODYEAR	WOOLWORTH

...Keep these stocks...

AT&T	GENERAL ELECTRIC
COCA-COLA	PROCTER & GAMBLE
DU PONT	MERCK
EXXON	WALT DISNEY

DATA: ARONSON & FOGLER INVESTMENT MANAGEMENT; BHIRUD ASSOCIAT GOETZMANN, COLUMBIA UNIVERSITY SCHOOL OF BUSINESS, UBS SECURIT

most sense not to ignore the Dow to change it—dramatically.

ISINESS WEEK took the liberty of ask- four market observers to design 30- k indexes that would more accurate- eflect the U. S. economy (tables). y are Theodore R. Aronson, a part- at Aronson Fogler Investment Man- nent in Philadelphia; Suresh Bhirud, l of Bhirud Associates research bou- e; Charles Frumberg, director of re- ch at UBS Securities; and William tzmann, assistant professor of fi- e at Columbia University Graduate ol of Business.

NAMES. Although the four ad- sed the question independently, they e to surprisingly similar conclusions it the stocks that should make up an index. They were unanimous in nixing 10 Dow stocks and retaining 8 others. And although their remaining picks for such an index were diverse, they were in agreement on a number of non-Dow stocks—Wal-Mart Stores appeared on all four lists, and Union Pacific, American International Group, and Federal National Mortgage Assn. were also popular. Moreover, even though the stocks tend to be the largest-cap stocks in their sectors, which gives them a bias toward issues that have performed well in recent years, all four portfolios performed at least as well as the Dow in tracking the S&P 500 when "back-tested" over the past three years.

Are you listening, Dow Jones? Not likely. Dow Jones is notoriously reluctant to restructure the Dow and oversees its flagship index with studied informality. There are not even formal criteria for determining membership in, or exclusion from, the Dow. "It's an art, not a science," Prestbo explains. The last change in the Dow was in May, 1991, when Caterpillar, Walt Disney, and J. P. Morgan replaced Navistar International, USX, and Primerica.

Prestbo scoffs at the view that the average should drop venerable names such as IBM and General Motors Corp., just because they're undergoing hard times. Notes Prestbo: "One of the atttributes of the Dow is continuity." Perhaps. But so long as the Dow loyally clings to the dowagers of the investment world, the risk is that its most precious asset—credibility—will continue to evaporate.

By Gary Weiss in New York

HE DOW

construct the rest of the index as follows

SON	AMR	BRISTOL-MYERS SQUIBB	GENERAL MOTORS	J.P. MORGAN	UNION PACIFIC
	ARCO	CORNING	GTE	NATIONSBANK	WAL-MART
ITL. GROUP	BANKAMERICA	DUN & BRADSTREET	IBM	PACIFIC GAS & ELECTRIC	WASTE MANAGEMENT
L	BELL ATLANTIC	FEDERAL NATL. MORTGAGE	MICROSOFT	PHILIP MORRIS	WEYERHAEUSER
D	BAXTER INTL.	GANNETT	INTEL	3M	PACIFIC GAS & ELECTRIC
	BOEING	GTE	JOHNSON & JOHNSON	NATIONSBANK	TIME WARNER
ITL. GROUP	CHEMICAL BANKING	HOME DEPOT	KELLOGG	NOVELL	UNION PACIFIC
	FEDERAL NATL. MORTGAGE	IBM	KIMBERLY-CLARK	PHILIP MORRIS	WAL-MART
BERG	BETHLEHEM STEEL	INTEL	McDONALD'S	SARAH LEE	TOYS 'R' US
	BOEING	INTERNATIONAL PAPER	MICROSOFT	SEARS	WAL-MART
	EDS	JOHNSON & JOHNSON	NATIONSBANK	SOUTHERN CO.	WASTE MANAGEMENT
	FORD	J.P. MORGAN	PARAMOUNT	TELE-COMMUNICATIONS	UNION PACIFIC
E MANN	AMGEN	CAPITAL CITIES/ABC	H&R BLOCK	KIMBERLY-CLARK	NORFOLK SOUTHERN
	AMERICAN EXPRESS	FEDERAL NATL. MORTGAGE	IBM	MASCO	PACIFIC GAS & ELECTRIC
	BANKAMERICA	GENERAL MOTORS	JOHNSON & JOHNSON	McDONALD'S	PHILIP MORRIS
ITL. GROUP	BRISTOL-MYERS SQUIBB	HOME DEPOT	J.P. MORGAN	3M	WAL-MART

ILLUSTRATION: BY PETER KUPER

CAN BALTIMORE'S BIRDS BAIL OUT THEIR OWNER?

Even a big Orioles sale may not rescue Eli Jacobs

Eli S. Jacobs is in the bottom of the ninth with two outs and a huge score against him. The financier, an eager Washington political networker with a disparate string of holdings, is trying to peddle his Baltimore Orioles in a bid to lessen the weight of his crushing debt. A bank is seizing his $2 million home in the Baltimore suburbs. Several lenders have judgments and pending suits against him, seeking $37 million in unpaid loans. And last year, he lost his controlling stakes in two troubled companies, Memorex Telex and Triangle Pacific Corp., after restructurings (table).

The 55-year-old Jacobs, who paid $70 million for his 87% of the Birds in 1989, certainly needs a sale to bail him out. Yet despite his problems, Jacobs still has the chutzpah to shoot high. He's aiming for the most lucrative baseball franchise sale in history, say sources close to the negotiations. When he first hawked the team in 1991, he wanted $200 million. The record thus far is for the Seattle Mariners, which fetched $125 million in 1992. But no one met Jacobs' steep price, and as his financial jam has worsened, he has come down to about $160 million. Various bidders are offering around $130 million. The most prominent is William O. DeWitt Jr., a Cincinnati-based investment banker who is part-owner of the Texas Rangers. Jacobs declined comment on his financial woes.

SIGNALS. The question is whether Jacobs will rake in enough to satisfy his creditors. Sports-business analysts place his debt load on the team at about $90 million. Should he sell the Orioles for only $130 million, he would clear barely enough after team debt repayment to settle the court-contested loans.

Without a doubt, the Orioles are among the 15 most valuable sports franchises in America. Orioles Park at Camden Yards, the team's new state-owned stadium, is the hottest draw since Toronto's Skydome. The O's attracted 3.6 million fans (about $40 million worth) in 1992, Camden Yards' maiden year, while overall baseball attendance declined slightly. And the stadium's lease gives the team a fat percentage of concessions and luxury-box revenues, to the tune of $6 million per annum. For baseball fans in the densely populated Baltimore-Washington-Richmond area, the Orioles are the only major-league game around. Add in, too, local television contracts that are worth about $11 million a year.

On the minus side, however, Jacobs could suffer because baseball teams aren't a hot commodity now. Reasons: The sport has no commissioner to settle intrateam squabbles, labor costs are rising at a faster rate than revenues, and labor and TV contracts expire after the coming season. Banks are said to be chary about financing team purchases. "All this sends a signal to investors that baseball is a risky business to be in," says Andrew Zimbalist, a Smith College economics professor and author of *Baseball and Billions*.

It's difficult to gauge the true impact of an Orioles sale on Jacobs. Information about his closely held portfolio, which he runs from his office on Manhattan's Park Avenue, is not publicly available. As a result, other than what has surfaced to date, outsiders have no way of knowing if he has any other dilemmas to deal with—or advantages, for that matte

BALLPARK FIGURE: JACOBS IS BUCKING A BASEBALL SLUMP

JACOBS IN JEOPARDY

FEBRUARY, 1992 Loses 35% ownership of Memorex Telex in Chapter 11 reorganization

AUGUST, 1992 Baltimore bank sues to attach assets after default on $21.3 million personal loan

NOVEMBER, 1992 Hands over most of 97% stake in Triangle Pacific to bondholders in out-of-court restructuring

FEB. 26, 1993 Foreclosure auction scheduled on his $2 million home outside Baltimore

DATA: COURT DOCUMENTS, BUSINESS WEEK

Evidence of his fina cial straits, though, abundant. A court h set a Feb. 26 public au tion for his house Owings Mills, Md., a ter he didn't make h mortgage payment Creditors also have ga nished his Orioles ear ings. His biggest hea ache is a suit Baltimore's Mercanti Safe Deposit & Tru Co. over his alleged d fault on a $21.3 milli personal loan. On top that, he's in court wi two New York ban that charge he has d faulted on their loan Manufacturers & Tra ers Trust Co. ($4.6 m lion), a case he lost b is appealing, and Ber shire Bank ($490,000 which is pending.

SOURED. Jacobs' mo spirited legal fight with Banca Comme ciale Italiana, an Itali bank that won a jud ment for nonpayme on a $10 million lo against an investme partnership he ra While that firm, Park Partners LP, insolvent, the bank contends it can t Jacobs' personal assets. In court pape Banca Commerciale argues that Jaco opened himself up for this action by a cepting a $7.76 million personal lo from the partnership, allegedly violati covenants on the $10 million financi that barred such a borrowing. But J cobs responds that this was actually r payment of a loan he had made to t partnership.

Jacobs' current plight seems to ste from soured investments: in Memorex, computer-peripherals maker, in 198 and in Triangle Pacific, a manufactur of cabinets and hardwood flooring, 1988. "Eli was in the wrong industries weather a recession," says one W Street figure familiar with his dealing When Memorex, a Netherlands compa with its U. S. subsidiary headquarter in Irving, Tex., emerged from Chapt 11 early last year, Jacobs' 35% equi was wiped out. Last fall, an out-of-cou restructuring delivered most of the 97 he held in Dallas' Triangle Pacific bondholders. Given all that, he can on hope the Orioles sale is a grand slam

By Larry Light and Harris Collingwo in New York

AKE UP, NIKKEI—TIME OR YOUR SHOCK THERAPY

ntic regulators are doing everything but beg to jolt prices up

ith the Nikkei stock average languishing as Japan slips further into recession, To- s financial regulators are getting erate. Hoping to forestall a collapse, are trying to pump billions into the ket and the economy. A financial h could propel the economy into an more precipitous dive and shake ncial markets worldwide.

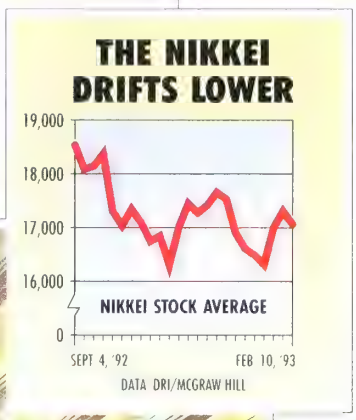
is is hardly the first time the Fi- e Ministry has tried to prop up the ket. After the Nikkei dived to a 6½- low of 14,309 last August, for ex- le, officials spurred a sharp very by urging big inves- not to sell and suggesting the government might out sick banks. But the ket has been losing ground since (chart). Even Prime ster Kiichi Miyazawa's an- cement of an $87 billion l stimulus plan failed to So in recent weeks, the stry has started applying cle again.

is time around, it is tak- an even more aggressive ce. The Ministry is jawbon- pension-fund managers to shares while continuing to sure them to avoid selling. buying $200 million worth overnment bonds a week brokers. It is suggesting lenders pad their bottom by revaluing their vast estate holdings. It's even ding banks to lend more— at lower rates—to cash- ed small companies.

it few investors are im- sed. With the economy ening and with interna- l tensions over trade on rise, many now fear that Ministry is only postpon- n inevitable sharp correction.

IFICAL RESTRICTIONS.' A market would savage banks, which are dy awash in an estimated $250 bil- in bad real estate and corporate s. They have also piled up massive rities losses during the Nikkei's 37- h slump. That has wiped out much eir capital. Additional losses could banks to stop lending altogether, causing a credit crunch that could deepen the recession and market malaise.

Worried by this prospect, many Japanese politicians and bankers are urging Finance Minister Yoshiro Hayashi and his aides to forget about trying to manipulate the Nikkei and get serious about fixing the economy. "It's better not to place artificial restrictions on the market," says Nomura Securities Co. Chairman Yukio Aida.



TOKYO STOCK EXCHANGE: INVESTORS REMAIN UNIMPRESSED

For the stock market and economy to recover, however, tightfisted financial regulators will have to swallow their pride and launch a reflation drive even more ambitious than Miyazawa's 1992 plan. With Japan running a budget surplus equivalent to nearly 1% of its gross domestic product, analysts argue, it has ample room—and reason—to slash income taxes. The government will also have to be more forthright on aiding the banks. Although the Bank of Japan slashed the discount rate to an all-time low of 2.5% on Feb. 4, no serious effort to rescue the stressed-out banking system can begin without Miyazawa agreeing to an American-style bailout plan funded by massive amounts of taxpayer money.

WASHINGTON CHILL? Japan's waffling on economic recovery, as well as its $133 billion trade surplus, could subject Hayashi to sharp criticism from Treasury Secretary Lloyd M. Bentsen when they meet in Washington on Feb. 13. Speculation that the U. S. and other Group of Seven allies will put renewed pressure on Tokyo to cut its trade surplus has already forced the yen up 4% in recent days, to 120 to the dollar. An even stronger yen could spell bad news for Japanese exporters and put more pressure on stocks.

It's far from certain that Finance Ministry officials will be able to resist such pressures. Many of the moves that they have made so far seem ineffectual. Take the Ministry's suggestion that lenders revalue their property holdings, many of them still on the books at dirt-cheap 1950s prices. Doing so would boost the banks' assets, nearly double shareholders' equity, and, in theory, permit the banks to start lending again. But the idea is a nonstarter, since revaluation would expose banks to a substantial tax hit on the gain. The Bank of Japan is leaning on life insurers, once big lenders to corporations, to take up the slack left by weakened banks. But with real estate values sagging, few think the insurers will go along.

The Finance Ministry's market-propping measures haven't been totally for naught. Tetsuo Tsukimura, the Tokyo-based chief economist for Smith Barney, Harris Upham International Inc., says the Nikkei would have plunged to 10,000 but for the Ministry's efforts. Indeed, the market has so far managed to avoid a repeat of last summer's bloodbath. But without applying quick financial shock therapy, Japan's regulators will be increasingly hard-pressed to protect the Nikkei from disaster.

By Larry Holyoke and Robert Neff in Tokyo

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BY GENE G. MARCIAL

BRISTOL-MYERS: CAN IT SHAKE OFF THE BLAHS?

It's no longer news that pharmaceutical stocks have been pretty sick. Last year was their worst in 20 years, and they're still ailing, based on the group's dismal performance so far. The big fear now is that President Clinton will impose curbs on drug prices. So Street pros have been avoiding pharmaceuticals like the plague.

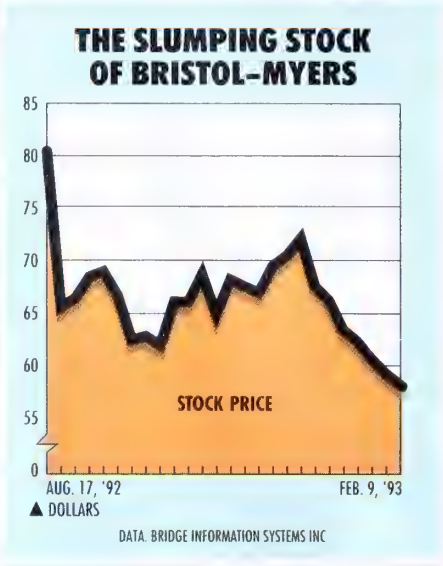
But not all. Some value investors have started accumulating shares of Bristol-Myers Squibb, one of the more badly hit drug stocks. From 90 a share at the beginning of 1992, Bristol-Myers has since dived to 58. Money manager Mark Boyar is high on the stock because he expects the company to sell two of its core operations: the nonprescription health-products division and the toiletries, beauty aids, and household-products unit. Boyar notes that Bristol-Myers already has sold its Drackett unit to S. C. Johnson & Son for $1.15 billion. Drackett produces household products such as Windex, Vanish, and Drano.

DIVIDEND BOOST. Bristol-Myers' nonprescription-products unit is worth about $6 billion, or three times its 1992 sales, estimates Boyar. The unit makes infant nutritional products and brand-name drugs such as Bufferin, Excedrin, and Nuprin. The toiletries and beauty-aids operations, which had sales of nearly $1.2 billion last year, is worth about $2.5 billion, Boyar figures. Together that comes to some $16 a share. Bristol-Myers spokesman Tony Carter says the company doesn't comment on divestitures or acquisitions.

Boyar expects the company to use the proceeds from the sale to repurchase shares now yielding 5% and boost the dividend. Flush with cash—$1.3 billion—the dividend is "very secure," says Boyar.

Once the uncertainty over Clinton's health-care plan passes, says Boyar, shares should rally to 70 then head up to 100 over a two-to-three-year period.

One of the few analysts who is bullish on Bristol-Myers is Neil Sweig of Capital Institutional Services. "It is still very much a quality drug company, and its earnings are turning up," says Sweig. He sees earnings of $4.70 a share in 1993 and $5.35 in 1994, vs. 1992's operating net of $4.10.



Among Bristol-Myers' major products are cardiovascular drugs such as Capoten and Questran. The company also makes anti-infection drugs, including Azactam, and the anticancer agents Platinol and Taxol. In 1991, Bristol-Myers introduced Videx, also known as DDI, an antiviral therapy for AIDS patients whose conditions worsen when taking the anti-AIDS drug AZT.

THE GOOD BOOK AND *PLAYBOY*

Bibles are selling like hotcakes—and *Playboy* is starting to sizzle. How does that add up to a money manager? Art Bonnel, who runs the MIM Stock Appreciation Fund, did what he thought was the blessed thing to do: He scooped up shares of Thomas Nelson, believed to be the world's largest Bible publisher, and Playboy Enterprises, the entertainment and publishing company that puts out *Playboy*.

Bonnel doesn't suggest any connection between the Bible and *Playboy*, but he sees both stocks as potentially huge winners. Thomas Nelson has had a good run since 1987, when it was trading at 4 a share. It hit a high of 24 last year and now trades at 18. The stock is headed still higher, to the upper 20s over the next 12 months, Bonnel believes. He expects a net of 75¢ in 1993 and $1 in 1994, vs. 1992's 60¢.

The company is a mass marketer of Bibles, which account for 47% of sales. They are available in Christian shops and general-book stores such as B. Dalton's. Mass merchandisers—including Kmart, Target Stores, and Sam's Wholesale Club—also carry them.

Playboy, however, is a strong turn around bet. Bonnel sees earnings of 35¢ in 1993 and 50¢ in 1994, up from 1992's 10¢. Playboy President Christie Hefner is expanding Playboy's licensing and marketing of products to include upscale items such as jewelry, apparel, and electronics, says Bonnel. He adds that the stock is dirt cheap at 8 and should hit 14 this year.

GATHERING NEWS—AND A LOT OF STEAM

When Charles Pluckhahn first visited IDB Communications Group headquarters in Culver City, Calif., the straitlaced Boston money manager was taken aback by its "wild and offbeat" decor. But after meeting with Chairman and CEO Jeffrey Sudikoff and President Ed Cheramy, the stuffed buffalo head above the door, neon lights, and signs with off-color words bothered him no longer. Pluckhahn doubled his stake in IDB right after that visit last June, and now he's one of the biggest bulls on the stock, which has bolted from 14 a share in September to 23 on Feb 9. He thinks IDB will be 50 in two years.

This upstart company "is hot," says Pluckhahn, portfolio manager at State Street Research & Management, because of the "exploding niche markets" that IDB has developed in the U. S. and overseas." As a result, IDB has caught the attention of the "momentum players," the pros who place huge bets in companies that show sharp turns—up or down—in earnings flow. Since 199 IDB's earnings have accelerated sharply percentage-wise, says Pluckhahn.

IDB is in four major markets. It gathers and distributes radio and TV broadcasts in the U. S. and abroad (mainly spot news) and sports news for U. S. and foreign TV networks. IDB also provides private phone lines for companies in the U. S. and abroad, mobile-phone services via satellite for aircraft and maritime vessels, and long-distance services to such countries as Chile, Israel, and Russia via its IDB&T unit.

IDB's purchase of Pacific Telecom's TRT Communications, a worldwide long-distance carrier, has bolstered Pluckhahn's bullishness. "TRT will boost IDB's revenues by $90 million in 1993," says IDB's Cheramy. So 199 revenues of $150 million should jump to $350 million this year and to $40 million in 1994, he figures. Analysts expect earnings of $1 a share in 199 and $1.50 in 1994, vs. 1992's 75¢.

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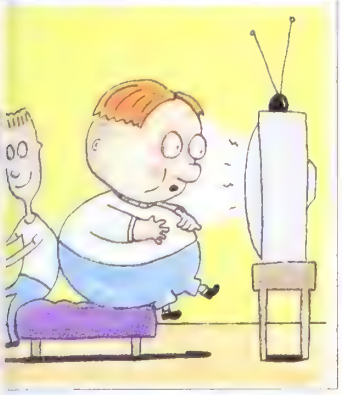
January 29, 1993

D BY EMILY T. SMITH

WONDER SOFA SPUDS E SO LUMPY



Couch potatoes, beware: Research has found that watching TV can be a fast track to obesity, because it encourages eating at the expense of exercise. Now, a study shows that TV's effect on waistlines is even more insidious. Watching TV causes a "profound lowering of metabolic rate," say scientists at Memphis State University and the Uni- ity of Tennessee in the February issue of *Pediatrics*. ie scientists measured the metabolic rates of 8-to-12-year- girls as they rested and as they watched episodes of *The der Years*. When the TV was on, their energy consump- dropped by up to 16%. These findings firm up the connec- between Americans' affinity for TV (children watch an age of 26 hours per week) and high U. S. rates of obesi- 25% for children and 30% for adults. TV's effect on metab- n, the scientists conclude, "may be a primary mechanism" the relationship between obesity and the amount of TV ing. No word yet on how TV exerts this powerful effect.

45 MICROWAVE SHUTTLE TO BONN, W LOADING ON PLATFORM B'

the 21st century, and you want to fly from Spokane to ulouse. Don't bother with a jumbo jet. Just book a trip in ghtcraft capsule that's flung into the stratosphere with ing beams of focused microwave or laser energy. Travel way around the globe would take 45 minutes.

is is the vision of Leik Myrabo, an associate professor of space engineering at Rensselaer Polytechnic Institute. the past eight years, the U. S. Air Force, NASA, and the tegic Defense Initiative Office have awarded him more $600,000 to develop the idea. Until now, the biggest acle has been finding energy sources powerful enough. with the development of high-powered microwave energy ns—which can produce up to 1 gigawatt, Myrabo says— idea looks more credible. In the lower atmosphere, a owave beam could explode volumes of air beneath the t, forcing it upward in small blasts thousands of times a nd. Ground-based microwave beams would also slow the t's descent. Passengers would be sealed inside, protected the energy. This year, Myrabo will work at the Space lies Institute in Princeton, N. J., to develop his idea.

IS COSMETIC COMPANY ALLY KNOWS ITS OATS

ats have a remarkable power to soothe irritated skin, which is why they have been used for centuries in poul- s, masks, and soaps. While the grain should also be a rable raw material for cosmetic use, difficulties in process- it have limited its potential.

o more. Nurture Inc. in Missoula, Mont., is rolling out a family of protein-based biomaterials made from oats. The oat particles can act as natural emulsifiers, bind active ingredients for subsequent controlled release, and sequester unwanted materials from liquids or gases. That makes them suitable for dermatology and cosmetic products. As emulsifiers, for instance, when mixed with cosmetic oils such as lanolin, they can produce nongreasy, fast-drying lotions, sunscreens, or insect repellants. Their controlled-release properties also make them valuable for delivering topically applied medicines, such as benzoyl peroxide for treating acne. The company is building its first $2 million plant, which will process some 1.5 million pounds of oats a year and will begin supplying its Nurture particles this year.

WESTINGHOUSE SEES GOLD IN DIAMOND COATINGS

Hard, transparent, and the world's best heat conductor, a thin film of machine-made diamond coating could enhance thousands of products—from machine tools to airplane windows. The only trouble is that today's 5-kilowatt diamond-film machines can coat an area only eight inches in diameter at a time, which is slow and costly.

Westinghouse Electric Corp. and SGS Tool Co. of Monroe Falls, Ohio, intend to develop a technology to produce affordable diamond films. They hope to gear up a 1-megawatt machine, based on a plasma torch, that concentrates ionized gases at 10,000F, to produce up to three feet of diamond coating at a time. This would cut the cost of diamond coatings from the current $30 a carat to $5 a carat, opening up a $4 billion world market by the year 2000. The three-year, $5.2 million effort is backed by the National Institute of Standards & Technology. It's part of a national drive to move the U. S. ahead of Japan in diamond technology. If successful, boasts Westinghouse researcher Jan Schreurs, it "will put the U. S. way beyond what anyone else can do."

A ROBOT THAT GETS UNDER A PLANE'S SKIN

Let your robot do the crawling: That's how airlines may soon check the aluminum skins of their planes for barely perceptible signs of stress cracks. If not detected and repaired, these can cause accidents such as the one that peeled open the fuselage of an Aloha Airlines Boeing 737 in 1988.

Today, mechanics dangle aerobatically from cables to place special stress-crack sensors on a plane's sides and tail. But since Aloha's mishap, Behnam Bahr, an assistant professor of mechanical engineering at Wichita State University, has patched together a robot for the job. Assembled from $20,000 worth of off-the-shelf hardware, the prototype looks like a huge insect with suction-cup feet. A recent demonstration clinched a $150,000 contract from the Federal Aviation Administration to make the robot smaller and faster. Boeing, McDonnell Douglas, and Cessna will provide technical help, and scientists at Carnegie Mellon University will do the robot's electronics. The midget version should be ready late this year.

CONSUMER ELECTRONICS

SWEATING OUT THE HDTV CONTEST

The FCC standards competition was brutal—but productive

Over 10 trying weeks last spring, the pressure never eased. Daily at 7 a.m., a team of researchers from Zenith Electronics Corp. and American Telephone & Telegraph Co. gathered in a nondescript office building in the Washington suburb of Alexandria, Va. For the next 10 to 14 hours, engineers hired by the Federal Communications Commission tested the picture, sound, reliability, and broadcasting range of Zenith-AT&T's version of high-definition television, TV's technology of the future. Evenings, the team checked its equipment—and often ended up in a race with the clock. If a bad part turned up, a technician from Bell Labs in Murray Hill, N. J., grabbed a new component and got the last flight from Newark to Washington. If the glitch was found late, the technician drove—so the next day's test could start on time. "It was exhilarating," says Arun Netravali, executive director of AT&T Bell Laboratories.

It was a lot more than that. Four groups of competitors proposing five systems have trekked to Alexandria over the past 14 months. Perhaps as early as Feb. 24—and almost certainly by summer—an FCC advisory committee will pluck from among the entries a set of technical standards that broadcasters and TV makers may live by for the next 50 years or so. The futures of companies ride on the decision. Zenith, the only U. S.-based TV maker, wants a win to help it rebound from six years of operating losses. France's Thomson and the Netherlands' Philips Electronics, both with big U. S. TV subsidiaries, think a victory would help solidify their No. 1 and No. 2 market shares. Their jointly developed system is also favored by many broadcasters, while cable-TV companies like one from General Instrument Corp. and Massachusetts Institute of Technology. And the winner will get big royalties, since each team will be required to license its technology.

FED REFEREES. The FCC won't crown a final winner until after field tests later this year. But it seems clear already that a new approach to standard-setting the agency tried with HDTV is an extraordinary success. Past standard-settings weren't always organized in a way that let the best ideas bubble to the top. This time, however, the FCC set broad guidelines for HDTV design, th refereed the ensuing contest. The "co petition has really driven people to inn vate," says D. Joseph Donahue, seni vice-president for technology and bu ness development at Thomson Cons mer Electronics. "If we had collaborat from Day One, we would not ha made the advances we have."

The critical breakthrough came June, 1990, when General Instrume (GI), a maker of cable-TV gear, devised way to transmit TV signals in comput language—an advance that hadn't be expected until years later. Then-F Chairman Alfred C. Sikes soon signal that he favored digital, in part becau its ability to manipulate, compress, a store moving scenes would let comp ers, TVs, and other digital devices wo seamlessly together. That could ma HDTV a common platform for deliveri information to homes.

By then, alarmed at the lead Jap and Europe had in advanced TV, th FCC had set up the HDTV contest, a pointed an oversight panel of indust executives, and gotten companies to ch in $26 million for the Alexandria lab a other gear. GI's discovery ended th chances of 23 systems that were be ter-than-current versions of analog-wa technology, the one used in today's T and the one the Europeans and Jap nese had banked on. Digital meant th HDTV race would be decided in the U.

In fact, Sikes's preference for a sy tem designed in U. S. labs set off th first of a series of skirmishes th marked each stage of the competitio Although the Thomson and Philips la

AND THE WINNER OF THE HDTV SWEEPSTAKES IS...

U. S.-based, rivals began calling it European consortium. In response, a d team member, NBC Inc., lined up International Brotherhood of Electri- Workers, which trooped to Capitol to argue that the "NBC group" would luce the most U. S. jobs. Zenith, for ance, makes most of its TVs in Mex- By late 1991, the contest had nar- ed to five systems, including two ations of GI's, the second conceived ı MIT. One at a time, each group ıld get 10 weeks in Alexandria to ve itself.

FRAGILE. The ground rules were ightforward. Each team brought its ısmission gear and TV receivers plus -minute videotape that would test its em on about 30 things, from color lity to fast-motion video. No design ıges were permitted during testing, ıkdowns ate into the 10 weeks, and results were made public—all 600 es or so. Japan's NHK was allowed to its analog system, even though it clear it couldn't win.

hen in December, 1991, the real bat- began. GI went first. Its receiver— ch, as in conventional TV, paints ev- other line on a screen, then goes ı and fills in the rest—cleared the without major glitches. But GI's ısmission gear had problems with rference—both causing it and suffer- from it. That set off alarms among ıdcasters despite GI's claims of its em's "elegant simplicity."

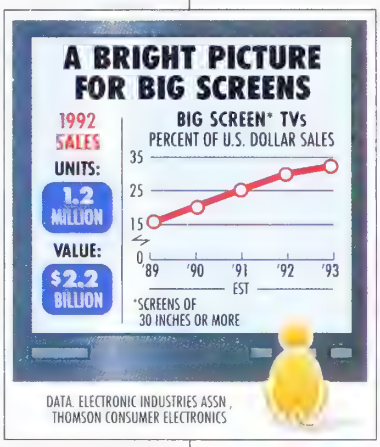
enith and AT&T went second and put a livelier show. As their turn ap- ıched, in March, 1992, AT&T's team at Labs worked three shifts a day on video-compression technique that the key to cramming the complex V signal into a standard channel. Ze- begged Bell Labs to finish key ıpment so it could be tried out with ith's transmission system—and ten- s rose as AT&T lagged. Says Zenith irman Jerry K. Pearlman: "We were posed to have a month to tune the em. Then, it was a couple of weeks, ı days, then hours, then nothing."

lore headaches awaited in Alexan- . On the first day, an incorrectly grammed chip was discovered that cted picture tuning. Zenith and AT&T ed the other teams for a chance to st. There was "an agonizing debate," Robert K. Graves, AT&T's vice-pres- ıt for government affairs, with GI ng a chip swap an illegal design ıge. "Someone politely called us a ın liar," Graves says. A new chip d have been installed overnight. But dispute ran 10 days until Thomson- ips-NBC agreed to the change, GI did and Zenith repeated its tests. th's problems, and GI's cool reception ı broadcasters, sobered both teams. May 7, in the middle of Zenith's test, the two agreed that if either won, they would share royalties and cooperate on system development.

For the Europeans, meanwhile, the Zenith-AT&T delay was manna from heaven. Thomson-Philips-NBC tweaked its system until the last moment and still entered the test center 12 days late in June. NBC Chief Executive Robert C. Wright phoned Zenith's Pearlman and asked him not to oppose NBC's request to start late. Pearlman didn't, and GI went along. Then, Thomson-Philips-NBC suffered an equipment screwup: A filter meant for a transmitter had inadvertently been put into the television receiver—an error that took three weeks to discover. The consortium worked maniacally to finish on time—and in the end lost only five days of testing. Many

FOR PEOPLE WHO CAN'T WAIT FOR HDTV

When Sony Corp. rolled out its new, top-of-the-line 32-inch color television last fall, Walter Ingram was one of the first in the checkout line. The electronics enthusiast couldn't resist: With the XBR² model, Ingram can run instant replays and can divide the screen into 16 simultaneous shows. But gimmicks alone didn't persuade Ingram and his wife, Elaine, to shell out $1,700 when they had a perfectly good 25-inch set. With a four-year-old daughter and a year-old son, "you get kind of landlocked," says Ingram, the controller of a Seattle real estate developer. "We wanted to give the home creature comforts."



Like the Ingrams, more U. S. households are seeing big-screen TVs as a necessity. That augurs well for high-definition TV. Digital circuitry and other advances are boosting picture and audio quality on conventional sets, but HDTV provides a quantum leap in image and sound that will show up best on large screens. And though HDTV sets will intially cost more than even the most expensive standard TV, the prices consumers already are paying may soften the sticker shock.

UPSCALE PUSH. Ironically, the recession may have boosted big-screen televisions. "Instead of taking a vacation, people invested in a big screen so the whole family could enjoy it," says William Loewenthal, product-development manager for Mitsubishi Corp.'s U. S. consumer-electronics group. While total sales of color TVs fell by 10% from 1990 to 1992, sales of TVs with screens 30 inches and larger nearly doubled, to 914,000 units. Sales could soar an additional 17% this year, to 1.4 million units, vs. a 2.3% industry gain, to 22.1 million units (chart). Big screens will be 6% of overall unit sales but 32% of dollar sales—twice 1989's level.

In fact, big TVs are giving a lift to the $38 billion consumer-electronics industry. In the face of growing competition from warehouse clubs and mass merchandisers on other products, some electronics retailers are moving upscale. Last year, thanks partly to 0% financing deals, sales of big screens rose 60% at 104 Rex electronics stores in the Midwest.

WIDE FIGHT. Big-screen business is crucial to manufacturers, too. It's "almost the only thing that is profitable" for TV makers, says Brian L. Klosterman, vice-president for Sony Consumer Television Products Co. Indeed, the gross margin for a 35-inch set is 30%-plus, vs. as low as 10% for a 20-inch model, says Joseph Clayton, U. S. marketing chief for Thomson Consumer Electronics Inc.

With so much at stake, competition is heating up. This spring, Thomson, which has grabbed a leading big-screen share with aggressive pricing, will introduce the first wide-screen TV in the U. S.—a style that's expected to become synonymous with HDTV. The two 34-inch RCA models will have cinema-like, rectangular screens and sell for at least $4,500. They can fit two different TV shows side by side, or blow up one to fill the screen.

Thomson may not move many sets right away: The company figures it will sell no more than 15,000 wide-screens this year. Still, Japan's Matsushita and other makers are readying similar launches. With HDTV just around the corner, the action may be in big screens from now on.

By Lois Therrien in Chicago

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days, test-center staff and team engineers worked from 3 a.m. to 11 p.m.

By last August, there was one test to go, and it was preceded by a bitter summerlong fight. The last system, developed by MIT in collaboration with General Instrument, paints pictures on the screen line by line, as computers do—a key to letting TVs and computers work together. The only other system with that feature, known as "progressive scanning," was Zenith and AT&T. They had the only two cameras that produce videotapes in the progressive scanning format. So GI and MIT asked to test their system using a tape from Zenith and AT&T. No problem, came the reply, just pay us $700,000. GI and MIT squawked, eventually negotiated the price down to $95,000—then balked at even that and walked away.

When the testing finally ended in October, the combatants had spent far more time and energy than they had anticipated. AT&T alone said it pumped up to $20 million. Adds J. Peter Brinkham, president of Philips Laboratories: "We are always asking ourselves why we are going through this flagellation."

MORE TESTS? Frazzled they may be, but the players have learned from the battle. The new standard undoubtedly will be digital and likely will contain other features that will make it compatible with computers. This will let images created by computers be displayed on TVs without going through elaborate converters. And computers will readily be able to store, manipulate, and display video captured by HDTV cameras. The easier those tasks are and the prettier the results, the more consumers will want HDTV once it debuts, probably in early 1995. True, many HDTV sets and parts will be made in Japan and the Far East. But all players, U. S. and foreign alike, will benefit from a well-chosen system that's a hot seller.

Which system the full FCC will pick—and when—is a matter of conjecture. The advisory committee could endorse a system on Feb. 24. Still, none has emerged as clearly superior. More likely, there'll be another round of tests—perhaps of two or three weeks each—to let the teams show off their latest improvements. AT&T and Zenith, in particular, want that. Afterward, a couple of scenarios could develop. The FCC could choose one system or two for field trials. Or there could be no clear winner, and the combatants could collaborate to avoid a flat-out loss. Either way, the U. S. is likely to end up with a top-notch HDTV standard.

By Mark Lewyn in Washington and Lois Therrien in Chicago, with Peter C[illegible] in New York and bureau reports

RIALS OF A YBER-CELEBRITY

on Lanier: Vision, yes—patents, no

aron Lanier is sitting in a Chinese restaurant in Foster City, Calif., and people are staring. Unabash-y. Lanier is one of Silicon Valley's st illustrious sons. He pioneered a nology that Vice-President Al Gore publicly endorsed as a national com-itive tool. But fame is not the issue e. People gawk at him because of v he looks. Bigfoot comes to mind. Vell over six feet tall and of ample h, Lanier is a sight to behold. He's ssed in baggy black pants and an ucked shirt, and his head is a ne of dirty-blond dreadlocks ving over a scraggly beard. If hair is frightful, though, his ght blue eyes are mesmerizing. l as he sits talking softly to a re-ter, he's both aware of the stir he ses and wholly unconcerned by it. A tress comes by pushing a cart laden h balls of tangled fried noodles. "I'd those, please," Lanier says, giggling. ey remind me of my head."

Even by Silicon Valley standards, Jar-Lanier is an enigma. Widely hailed as enuine seer, he is responsible for hing a futuristic set of technologies bed "virtual reality" to edge of commercial vi-ity. But for all his com-er prowess, a boyish innocence es over when it comes to dollars cents. Unfortunately, that ocence has rendered Lanier guru without a portfolio. se days, he's struggling to in a role in the industry he ed spawn.

LANIER: STILL THE DARLING OF THE VR SET

Jaron Lanier coined the term 'virtual reality.' He became its chief proselytizer. But he didn't know how to run a company. And now he's become a guru without portfolio

ast November, following a year of cor and struggle, Lanier lost control his company, VPL Research Inc., to nch technology giant Thomson-CSF. e a friendly partner, Thomson turned an angry creditor. And after VPL unable to retire the French com-y's loans, Thomson seized all of VPL's ents and intellectual property, leaving ier flapping in the wind.

or a 32-year-old entrepreneur, it was old lesson in the real world. Lanier blithely championed virtual reality ever since 1984, when he founded out of his bedroom in Palo Alto, Calif. Lanier coined the term to describe the use of computer data to generate artificial three-dimensional "worlds." Using 3-D goggles and sensor-laden gloves, he allowed people to "enter" computer-generated environments and interact with the images displayed there. Imagine the difference between viewing fish swimming in an aquarium and donning scuba gear to swim around among them. That's the sensory leap between regular computer graphics and VR.

Most of the technologies needed to create such environments were invented by academics and government researchers. But they were hugely expensive and restricted to specific applications, such as flight simulators. Lanier's contribution was to develop software to run relatively inexpensive systems—sets of computers, gloves, and goggles that commercial users could tailor to any application they wished. "It took Jaron to put all the pieces together and make a commercially available system," says NASA engineer Joe Hale.

Lanier has always been precocious. He was reared in a remote corner of New Mexico, where he grew up in a geodesic-domed house with his father, a science writer. His mother, who died in a car crash when he was 9, was a concert pianist, and from her, Lanier inherited his first love, music. He also excelled at math, and at 14 was allowed to take classes at New Mexico State University. He never got a degree, but by the age most kids enter college, he had already progressed to graduate-level courses. He was "consumed by math's beauty," he says, and he was increasingly drawn toward computers.

By 1980, Lanier had moved to California and joined the programmer subculture making its mark with video games. With the money he earned by designing a game called Moondust, Lanier financed his own quest to invent a new way to express math graphically. He went to work on what he called a "visual programming language," which relied on familiar symbols instead of abstract notation to direct computer operations.

3-D DESIGNS. Meantime, Lanier and his friend Thomas Zimmerman, a fellow musician and game programmer, began to cook up a way to bring to life "air guitar"—the universal adolescent fantasy where teenagers pretend to be rock stars while strumming imaginary guitars. Zimmerman's idea was to create a glove equipped with optical sensors that would recreate notes if attached to a computer with a sound chip. Lanier and Zimmerman joined forces and used Lanier's programming language to tell the computer how to interpret the changing finger positions transmitted by the glove.

Air guitar was a toy, but the more he played it, the more Lanier saw the po-

THE PHOTOGRAPH BY PETER MENZEL, GRAPHIC BY ... AMY LOUISE BRAIMAN

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tential for VR. Engineers wearing such glove, he thought, could move comp nents around in 3-D computer-aided d sign programs. Medical students cou "practice" surgery on a virtual patie The research, he recalls, was "deliriou ly exciting. I just knew it would be great thing for the world."

During the 1980s, Lanier set abo refining his software and devising "tur key" systems of computers and equi ment that companies could use to crea their own "worlds." Stumping for t systems at computer conferences, L nier attracted attention, and before lo he had some big customers. VPL, for e ample, helped Japan's Matsushita build "virtual kitchen," in which Tokyo sho pers could choose different designs, fi tures, and appliances on a computer a then "walk around" in the kitchen spa

FRENCH EMOTION. Lanier also becan the budding industry's chief proselytize His sweeping vision for VR, combine with his radical appearance, won hi ardent fans around the world. Ben De ney, editor of the newsletter *CyberEd Journal*, says that at conferences, Lani "would be besieged like a rock star." Europe, where virtual reality is red-h Lanier's disciples sell psychedelic po ters with his face on them. In Japa he's sometimes mobbed on the street.

By 1989, the legend of Lanier h grown so large that VPL staffers g used to an eclectic mix of celebrit touring their offices on Lanier's arr from Grateful Dead band members Gore to Yoko Ono. Soon enough, t young firm became overwhelmed. Fro 1989 to 1991, VPL's sales zoomed fro $600,000 to about $6 million. But fo mer employees recall that the sales for sometimes couldn't demonstrate pro ucts for potential customers because L nier would allow a network film crew to shoot a story for several days using the only available machine.

A more serious problem was bu bling, too. In 1988, Lanier had broug in Thomson's venture-capital group a a minority investor. Initially, the relatio ship worked well: Thomson bought 10 of the company and kept its distanc Lanier owned much of the rest. But a VPL tried to expand to fit Lanier's visio it needed capital. In 1990, Thomson b gan providing a series of bridge loan each one upping the collateral and e panding total debt. The idea was th VPL would eventually find outside inve tors, but by July, 1992, it still hadn' VPL owed Thomson $1.6 million and h pledged its patents as security.

Thomson declined to comment. B with each successive loan, Lanier say the French company began to turn u the heat for more control over the con

/. The pressure created discord, and ı arguments flared among Lanier, mson, and Jean-Jacques Grimaud, a on Valley executive Lanier had re- :ed several years before to be VPL's ident. Lanier is the first to admit he ɔ manager. But he maintains the ıch had their own problems. "I find ıch businessmen really emotional confused," he says. "And they seem erceive the world in a vague way."

PLAYERS. In May, 1992, at Thom- s request, Lanier had brought in an- r experienced hand: a former Hew- Packard Co. exec named Walt her. In stark contrast to Lanier, Fis- 's style is all business. But as it ed out, he clashed with Thomson, The confusion only frightened away e potential investors—including Sin- ɔre's Economic Development Board. ɔre long, VPL ran out of working cap- and Thomson closed in on the ·nts.

anier, Fischer, and three of VPL's personnel have since founded a com- / called Domain Simulations, which nds to stick to software. Lanier will ·hief technical officer" and work from Sausalito (Calif.) studio, which is full of computers and half-full of his ·ction of exotic musical instruments. ll of VPL's intellectual property did ·rt to Thomson, but on Jan. 11, the ıch company filed suit in the U. S. ·rict Court in San Francisco to force to turn over materials, instruments, documentation related to the com- y's patents. Grimaud, who is still s president, won't comment on the , and it's unclear why Thomson is ng trouble getting what it wants.

[ost people in the budding industry k the patents aren't worth that h anyway. VPL's "Dataglove" is ele- :ly designed, but there are alterna- VR devices out there. Indeed, at t two dozen tiny companies have ·rged in VPL's wake, producing all ıner of VR technologies—from better ving devices to software to audio ponents. "VPL is not a purveyor of ınology for real-world problems," fs Tom Coull, president of Sense8, ausalito-based VR software maker. e industry has moved beyond the rre-guru stage."

anier takes the barbs in stride. "I love doing this stuff. Someday I'll ɔably get rich from it, but if I don't, ɔig deal." And don't expect too many ıges in his personal style: "Steve s's career started going downhill as ı as he started dressing better," he ; with a smirk. Lanier's legend as a ıeer is intact. His challenge now is to ve that he can succeed in the real, virtual, world.

y Joan O'C. Hamilton in Sausalito, f.

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BOND FUNDS: THE CAUTION LIGHT IS BLINKING

th bond prices at a six-year high, short- to medium-term funds seem the wisest choice

onservative investors are pouring cash into bond mutual funds as if they are expecting a replay of 2, when the average bond fund re- ed more than twice what was avail- at the bank and even nosed out the rage stock fund. But investors ld take warning. With bond prices six-year high, mirroring the decline ng-term interest rates, bonds could vulnerable to a sell-off. And that ns that bond funds at these levels d be a risky investment, too.

o one knows that more than the l companies, which are offering es of "low-volatility" bond funds seek to minimize risk. Bonds with ter maturities tend to fluctuate less longer-term bonds as interest rates ng. In fact, more than half of the 32 ls that earned the highest rating BUSINESS WEEK's Mutual Fund eboard are short- to intermediate- funds (table, page 100). The rat- , which are awarded for risk-adjust- returns over the past five years, onstrate that investors don't have to a lot of risk to get a rich reward the bond funds.

ne ratings, calculated by the mutual- l tracking service Morningstar Inc., just a starting point for investors. In Scoreboard, which starts on page there's a listing of historical re- s, yields for the most recent year, the average maturity of all the ls in a fund. Pay attention, too, to lowdown on sales charges and fund nses. When yields are in the single s, even a 1% expense ratio—$1 per of fund assets—chews up money would otherwise flow to shareholds. The average expense ratio for eboard funds was 0.93%.

KELY SPIKE. Muni funds, you'll no- outpaced most of the categories of ble-bond funds during 1992 (table). t's unusual, since the tax-free ls always yield less than taxable ls with comparable maturities and it ratings. Muni funds and bond es were pumped up by strong de- d from investors, who fled to tax- npts to avoid the higher taxes that are all but certain in the coming year. Industrywide, bond funds enjoyed their second best year ever, taking in $93.3 billion in new cash after redemptions and excluding reinvested dividends. But tax-free funds scored their best year ever—taking in nearly $30 billion net of redemptions, according to Strategic Insight Inc., a fund research-and-consulting firm. That's also 50% more than the funds collected in 1991. And the surge is not over. Figures collected by AMG Data Services of Arcata, Calif., which tracks cash flows to funds, indicate that muni funds, which now total about $204 billion, have picked up some $6 billion in

FOR MOST FUND GROUPS, SOME NIFTY RETURNS

Investment objective	Total return* 1992	1990-92**	1988-92**	Best performing fund in 1992
CORPORATE-HIGH-YIELD	18.1%	13.3%	9.9%	Fidelity Capital & Income
CONVERTIBLE	13.6	10.8	12.3	Fidelity Convertible Securities
MUNICIPAL-NEW YORK	9.6	9.2	9.5	New York Muni
MUNICIPAL-SINGLE-STATE	8.8	9.0	9.7	Scudder Massachusetts Tax-Free
MUNICIPAL-CALIFORNIA	8.5	8.7	9.3	Vanguard CA T/F Ins. Long-Term
MUNICIPAL-NATIONAL	8.5	8.7	9.3	Strong Municipal Bond
CORPORATE-GENERAL	7.8	9.9	10.0	Janus Flexible Income
CORPORATE-HIGH-QUALITY	6.6	9.8	10.0	Vanguard F/I Inv. Grade Corp.
GOVERNMENT-MORTGAGE	6.3	10.2	10.2	Atlas U.S. Govt. & Mortgage
GOVERNMENT-TREASURY	6.3	9.3	9.9	Benham Target Maturities 2005
GOVERNMENT-GENERAL	5.8	9.3	9.5	Advantage Government Securities
GOVERNMENT-ADJ. RATE MORTGAGE	4.2	7.9	8.2	Pilgrim Adjustable U.S. Govt. I
INTERNATIONAL-WORLD BOND	2.3	9.8	8.7	IDS Global Bond
INTERNATIONAL-SHORT-TERM WORLD INC.	–0.2	NA	NA	Scudder S/T Global Income
ALL BOND FUNDS	8.1	9.6	9.6	
ALL TAXABLE FUNDS	7.7	10.3	9.9	
ALL TAX-FREE FUNDS	8.7	8.8	9.4	
LEHMAN BROS. INDEXES				
GOVT./CORP.	7.6	10.6	10.7	
MUNICIPAL	8.8	9.4	9.8	

*Appreciation plus reinvested dividends and capital gains
**Average annual

DATA: MORNINGSTAR INC

new money since the start of the year.

Whether tax-free or taxable, the key to bond-fund performance is the interest-rate outlook. Although long-term rates may rise a bit this year, with a slow recovery and low inflation, a sharp upward spike in rates is unlikely. President Clinton, at least in his first few weeks in office, seems to be getting better notices on Wall Street than inside the Beltway.

"Clinton has a lot of astute financial-markets people on his team," notes Barbara Kenworthy, portfolio manager of the top-rated Dreyfus Short-Intermediate Government Fund. "When they talk about higher-than-expected estimates of the budget deficit, they also talk about deficit reduction." Still, she thinks the bond market could cool toward Clinton later in the year if the deficit-reduction program doesn't live up to expectations.

Even if interest rates remain unchanged over 1993, there's reason to play the bond market cautiously. A five-year government bond yields about 5.5%, while a 30-year yields 7.2%. But if rates back up one percentage point, the five-year bond will lose a little more than 4% in price, and the 30, nearly 12%. So why take on the risks of long-term funds?

But low-risk funds are not no-risk funds. During 1992, two top-rated funds, Scudder Short-Term Bond Fund and Strong Short-Term Bond Fund, suffered small losses in net asset value. Still, the Scudder fund earned a total return of 5.5% and Strong 6.7%, vs. 3.4% for the average money-market fund.

Two other supposedly low-risk so of funds also disappointed. Investors adjustable-rate mortgage funds fac losses in net asset value, even thou rates came down. That's because falli rates led homeowners to refinance mo gages, and mortgage securities pu chased by these funds at a price ov par were redeemed at 100¢ on the dolla The fund investors ate the differen Even Franklin Adjustable U. S. Gover ment Securities, the oldest and large ARM fund, lost about 1.5 percenta points in net asset value during the yea "If rates come down a little, its good f bonds and mortgage securities," sa David Yuen, its portfolio manager. "B if rates come down too much, it's bett for bonds but bad for mortgages. Y get hit with prepayments."

STUDY PAYS. But the experience the ARMs funds investors were not ing to those who had invested short-term world-income funds. T funds were designed to maximize t high short-term interest rates abro while minimizing currency ri through hedging. When Europe's e change-rate mechanism came u glued in late summer, so did t hedges. One, the Kemper Investme Short-Term Global Income Fund, lo 8.7% after dividends. Investors fl these funds in large numbers.

Some funds make their mar through dogged credit analysis. Tri Nguyen, who runs the top-rated Pu nam Tax Free High-Yield Fund, pla the economic recovery by investing industrial-development bonds—ta exempt bonds issued by governme but backed by corporations. As t companies' credit ratings improve, do prices of the munis that they bac The fund earned a 10.6% total retu in 1992.

Research also paid off for the I delity Advisor High-Yield Fund, t only junk fund to win a top ratin Portfolio manager Margaret Eag says she avoided the junk-bond sho by preserving capital, not incom "When the market was on the roc in 1989 and 1990, I bought bonds the companies with the best ca flow, not the highest yields," s says. In 1991 and 1992, she turned junk bonds of cyclical companies. H outlook for 1993: "no fireworks Junk bonds, she says, will earn t coupon rate of interest but not mu else. You can say the same thi about all 1993 bond funds. But it st beats what you can get at the ban

By Jeffrey M. Laderman in New Yo

Next week, the Mutual Fund Score board looks at closed-end funds

THE BEST OF THE BOND FUNDS

These 32 funds have earned three upward-pointing arrows, the highest award for risk-adjusted performance over the past five years

Fund	Average annual total return*	Investment objective
AIM LIMITED MATURITY TREASURY	8.1%	Government--Treasury
ALLIANCE MUNI. INCOME CALIFORNIA A	10.8	Municipal--California
CALVERT T/F RESERVES LIMITED-TERM	6.4	Municipal--national
DELAWARE TREASURY RESERVES INTERM.	8.7	Government--general
DREYFUS SHORT-INTERM. GOVERNMENT	9.5	Government--general
DREYFUS SHORT-INTERM. TAX-EXEMPT	6.8	Municipal--national
DUPREE KENTUCKY TAX-FREE INCOME	9.7	Municipal--single-state
FEDERATED INCOME INSTITUTIONAL	10.0	Government--mortgage
FEDERATED S/I GOVT. INSTITUTIONAL	8.2	Government--Treasury
FIDELITY ADVISOR HIGH-INCOME MUNICIPAL	11.7	Municipal--national
FIDELITY ADVISOR HIGH-YIELD	16.7	Corporate--high-yield
FIDELITY AGGRESSIVE TAX-FREE	10.2	Municipal--national
FIDELITY CONVERTIBLE SECURITIES	19.2	Convertible
FORTRESS MUNICIPAL INCOME	9.7	Municipal--national
FRANKLIN ADJUSTABLE U.S. GOVT. SECS.	7.8	Government--adj.-rate mort.
IAI RESERVE	7.0	Corporate--high-quality
NEUBERGER/BERMAN LIMITED MATURITY	8.8	Corporate--high-quality
PERMANENT PORTFOLIO TREASURY BILL	6.0	Government--Treasury
PREMIER GNMA	11.5	Government--mortgage
T. ROWE PRICE TAX-FREE HIGH-YIELD	10.0	Municipal--national
PUTNAM TAX-FREE HIGH-YIELD	9.1	Municipal--national
ROCHESTER FUND MUNICIPALS	10.7	Municipal--New York
SCUDDER SHORT-TERM BOND	9.8	Corporate--high-quality
STRONG SHORT-TERM BOND	9.1	Corporate--general
SUNAMERICA U.S. GOVERNMENT	8.1	Government--general
THORNBURG LIMITED-TERM MUNI. NATIONAL	7.7	Municipal--national
UNITED MUNICIPAL HIGH-INCOME	9.9	Municipal--national
USAA TAX-EXEMPT SHORT-TERM	6.6	Municipal--national
VAN KAMPEN MERRITT PA TAX-FREE INCOME	10.9	Municipal--single-state
VANGUARD F/I SHORT-TERM CORP.	9.6	Corporate--high-quality
VANGUARD MUNICIPAL LIMITED-TERM	7.5	Municipal--national
VANGUARD MUNICIPAL SHORT-TERM	6.2	Municipal--national

*1988-92, appreciation plus reinvestment of capital gains and dividends

DATA: MORNINGSTAR INC

MUTUAL FUND SCOREBOARD

W TO USE THE TABLES

SINESS WEEK RATING

ngs measure risk-adjusted performance. This vs how well a fund performed relative to other s and relative to the level of risk it took. Risk-ad- d performance is determined by subtracting a 's risk-of-loss factor (see below) from its historic return. Performance calculations are based on ive-year time period between Jan. 1, 1988, and 31, 1992. For rating purposes, funds are di- d into two groups: municipal bond funds and ther funds. Ratings are based on a normal sta- al distribution within each group and awarded ollows

- ▲ ▲ Superior performance
- ▲ Very good performance
- Above-average performance
- Average performance
- Below-average performance
- ▼ Poor performance
- ▼ ▼ Very poor performance

<

isk-of-loss factor is the potential for losing mon- a fund, calculated as follows: The monthly sury bill return is subtracted from the fund's to- turn for each of the 60 months in the rating pe- When a fund has not performed as well as Treasury bills, the result is negative. The sum of these negative numbers is then divided by the number of months in the period. The result is a negative number, and the greater its magnitude, the higher a shareholder's risk of loss.

PERFORMANCE COMPARISON

The tables provide performance data over three time periods. Here are equivalent total return figures for the Lehman Brothers Government/Corporate Bond and Municipal Bond indexes during those periods:

	GOVT./CORP.	MUNI.
1992	7.6%	8.8%
Three-year avg. (1990-92)	10.6%	9.4%
Five-year avg. (1988-92)	10.7%	9.8%

FUND CATEGORIES

The tables group funds in one of five categories, based on assets: Corporate, Government, Municipal, International, and Convertible.

SALES CHARGE

The cost of buying a fund, commonly called the "load." Most funds take loads out of initial investments, and for BW rating purposes performance is reduced by the amount of these charges. Loads on withdrawals can take two forms. Deferred charges decrease over time usually ending after shares have been owned five years. Redemption fees are imposed whenever investors sell their shares. Funds with none of these charges are called "no-load."

EXPENSE RATIO

Fund expenses for 1992 as a percentage of average net assets. The measures show how much shareholders pay for fund management. Footnotes indicate 12(b)-1 plans, which allocate shareholder money for distribution costs.

TOTAL RETURN

A fund's net gain to investors, including reinvestment of dividends and capital gains at month-end prices.

YIELD

The income a fund earned on its portfolio investments during 1992, expressed as a percentage of the fund's yearend net asset value per share.

MATURITY

The average maturity of the securities in a fund's portfolio, weighted according to the market value of those securities.

TREND

A fund's relative performance during the five 12-month periods from Jan. 1, 1988, to Dec. 31, 1992. The boxes read from left to right, and the level of green shows how the fund performed relative to others during the period: ■ for the top quartile; ■ for the second quartile; ■ for the third quartile; and □ for the bottom quartile. An empty box indicates that a fund is not rated for that time period.

TELEPHONE NUMBERS

See the index on page 117.

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%) 1 YR.	3 YRS.	5 YRS.	YIELD	MATURITY (YEARS)	5-YEAR ANALYSIS
RPORATE											
P HIGH-QUALITY BOND	▲	413.1	76	No load	1.13	6.2	9.7	9.9	6.2	10.9	
HIGH-YIELD(C) (a)		324.5	25	4.75	1.19†	18.6	15.3	13.2	11.2	8.9	
INCOME(C) (b)		218.8	−6	4.75	1.00†	7.4	9.5	10.2	7.6	16.5	
RICAN CAPITAL CORPORATE BOND	AVG	186.3	−2	4.75	1.00†	8.5	10.7	9.7	7.8	19.1	
RICAN CAPITAL HIGH-YIELD INVEST. A		401.1	11	4.75	1.06†	17.4	11.8	6.8	11.8	7.7	
RICAN HIGH-INCOME		454.7	60	4.75	0.94†	14.3	14.8		9.2	6.7	
SON BOND L	▲	145.0	26	No load	0.98	8.0	10.2	10.2	7.6	13.5	
FLETT CAPITAL FIXED-INCOME	▲	134.0	−18	No load	1.00	6.9	9.1	9.6	6.1	6.8	
STEIN INTERMEDIATE DURATION		544.2	30	No load	0.67	7.7	10.6		6.3	15.6	
STEIN SHORT DURATION PLUS		537.8	19	No load	0.66	6.4	9.0		5.4	9.3	
D FUND OF AMERICA	▲	3917.3	37	4.75	0.77†	11.3	11.6	11.2	8.0	9.3	
ONIAL HIGH-YIELD SECURITIES A		346.5	16	4.75	1.32†	21.2	14.1	10.9	10.3	7.4	
ONIAL INCOME A	AVG	149.3	2	4.75	1.25†	8.7	9.8	9.9	8.5	8.7	
ONIAL STRATEGIC INCOME A	AVG	436.9	3	4.75	1.16	9.8	9.4	10.9	9.6	3.2	
JMBIA FIXED-INCOME SECURITIES	▲	262.6	27	No load	0.66	8.0	11.0	11.0	7.0	6.3	
PASS CAPITAL FIXED-INCOME		182.9	24	3.75	0.88	7.7	10.1		6.8	9.8	
PASS CAPITAL SHORT/INTERMEDIATE		169.6	37	3.75	0.87	6.6	9.0		6.5	3.3	
N WITTER HIGH-YIELD SECURITIES		454.5	7	5.50	0.77	24.4	7.6	3.4	16.5	8.1	
N WITTER INTERMEDIATE INCOME		200.3	67	5.00**	1.67†	6.8	8.3		7.3	7.8	
WARE DELCHESTER (c)		802.9	515	4.75	1.08†	17.2	13.9	11.0	11.5	6.6	
GE & COX INCOME		136.3	42	No load	0.64	7.8	10.9		7.0	11.2	
FUS A BONDS PLUS	AVG	522.9	12	No load	0.88	8.2	10.4	10.9	7.2	16.9	
FUS STRATEGIC INCOME	AVG	165.9	156	3.00	0.85†	9.0	11.1	11.6	7.5	15.0	

des redemption fee **Includes deferred sales charge †12(b) 1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not meaningful. merly CIGNA High-Yield Fund. (b) Formerly CIGNA Income Fund. (c) Formerly Delaware Group Delchester H/Y Bond II.

DATA: MORNINGSTAR INC.

BOND FUNDS

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%) 1 YR.	3 YRS.	5 YRS.	YIELD	MATURITY (YEARS)	5-YEAR ANALYSIS
EATON VANCE HIGH-INCOME	▼ ▼	300.5	36	6.00**	2.19†	17.8	9.9	9.3	11.5	7.2	
FIDELITY ADVISOR HIGH-YIELD (d)	▲ ▲ ▲	161.8	269	4.75	1.10†	23.2	21.3	16.7	9.9	7.4	
FIDELITY ADVISOR SHORT FIXED-INCOME (e)	▲ ▲	207.8	541	1.50	0.90†	7.6	8.9	8.6	7.9	2.9	
FIDELITY CAPITAL & INCOME	AVG	1670.3	45	1.50*	0.83	28.4	17.0	11.8	7.9	6.3	
FIDELITY INTERMEDIATE BOND	▲	1454.6	24	No load	0.58	5.3	9.1	9.2	6.6	9.9	
FIDELITY INVESTMENT GRADE BOND (f)	▲	1040.5	59	No load	0.67	8.4	11.0	10.8	7.7	13.3	
FIDELITY SHORT-TERM BOND	▲ ▲	1659.4	192	No load	0.75	7.4	9.0	8.6	8.0	3.2	
FIDELITY SPARTAN HIGH-INCOME		434.7	115	1.00*	0.70	21.4			10.4	7.3	
FINANCIAL BOND HIGH-YIELD	AVG	212.2	114	No load	1.05†	14.5	10.5	9.7	8.9	9.6	
FINANCIAL BOND SELECT INCOME	▲ ▲	123.0	31	No load	1.15†	10.4	11.2	10.4	7.9	10.6	
FIRST INVESTORS FUND FOR INCOME		411.9	−4	6.90‡	1.06†	16.7	11.4	8.0	10.2	9.0	
FIRST INVESTORS HIGH-YIELD		190.7	−9	6.90‡	1.42†	19.2	10.1	6.8	9.3	8.9	
FIRST UNION F/I TRUST		323.4	25	No load	0.70	5.5			6.7	3.7	
FIRST UNION MANAGED BOND TRUST		121.5	8	No load	0.70	5.6			6.3	9.0	
FRANKLIN AGE HIGH-INCOME		1829.5	4	4.00	0.58	16.6	13.9	10.2	10.0	8.9	
GALAXY HIGH-QUALITY BOND RETAIL		109.4	90	No load	0.92	6.9			6.6	11.4	
GALAXY INTERMEDIATE BOND RETAIL		216.2	112	No load	0.91	7.4	9.6		6.6	6.4	
JOHN HANCOCK SOVEREIGN BOND (g)	▲	1386.3	11	4.50	1.43†	8.1	10.4	10.6	7.9	16.9	
JOHN HANCOCK STRATEGIC INCOME		219.7	92	4.50	1.69†	7.5	9.0	7.8	10.0	7.8	
HARBOR SHORT DURATION		139.1	NM	No load	0.83	4.6§				2.2	
HELMSMAN INCOME FIDUCIARY	AVG	424.8	24	4.50	0.49†	6.0	9.7	8.9	6.7	9.6	
HELMSMAN LTD. VOLATILITY FIDUCIARY		370.6	43	3.00	0.52†	6.0			6.0	3.4	
IAI BOND	AVG	114.5	0	No load	1.10†	6.8	10.3	10.6	7.7	12.9	
IAI RESERVE	▲ ▲ ▲	106.4	8	No load	0.85†	3.3	6.5	7.0	3.9	0.3	
IDS BOND	AVG	2188.6	7	5.00	0.72†	10.6	11.8	11.2	8.2	14.7	
IDS EXTRA INCOME		1270.9	20	5.00	0.83†	20.6	14.3	10.2	11.6	8.4	
IDS SELECTIVE	AVG	1559.5	7	5.00	0.74†	9.0	10.8	10.8	7.2	14.1	
IDS STRATEGY INCOME	AVG	504.7	52	5.00**	1.64†	9.6	10.5	10.0	7.2	12.7	
IDS STRATEGY SHORT-TERM INCOME		175.6	19	5.00**	1.75†	4.2	6.6		4.9	4.0	
INTERMEDIATE BOND FUND AMERICA		1381.9	121	4.75	0.90†	6.4	9.5		7.7	5.4	
JANUS FLEXIBLE INCOME		207.5	191	No load	1.00	11.9	10.5	9.2	8.5	11.2	
KEMPER DIVERSIFIED INCOME	▼ ▼	252.0	13	4.50	1.21	17.8	16.0	14.9	10.4	8.0	
KEMPER HIGH-YIELD	▼ ▼	1912.0	15	4.50	0.85	17.1	14.4	11.1	10.3	9.0	
KEMPER INCOME & CAPITAL PRESERVATION	▲	503.8	9	4.50	0.82	7.9	10.6	10.2	7.7	12.0	
KEMPER INVESTMENT DIVERSIFIED INCOME	▼ ▼	234.3	−4	3.00**	2.09†	16.8	14.1	12.8	9.1	8.0	
KEMPER INVESTMENT HIGH-YIELD		896.4	13	3.00**	1.89†	16.1	12.6	9.2	9.4	9.0	
KEYSTONE CUSTODIAN B-1	AVG	458.8	−5	4.00**	2.00†	3.9	8.4	8.7	7.4	12.7	
KEYSTONE CUSTODIAN B-2		899.6	7	4.00**	1.99†	9.8	8.4	8.3	8.6	14.2	
KEYSTONE CUSTODIAN B-4		813.3	8	4.00**	2.17†	18.1	9.4	6.8	10.9	7.1	
LIBERTY HIGH-INCOME BOND		382.8	25	4.50	1.02	17.2	17.9	13.5	11.1	6.5	
MACKENZIE FIXED-INCOME	AVG	113.5	12	4.75	1.50†	8.7	9.0	10.7	5.9	17.5	
MAINSTAY HIGH-YIELD CORPORATE BOND		507.7	71	5.00**	1.90†	21.6	14.0	10.5	10.1	7.8	
MERRILL LYNCH CORP. INTERM.-TERM A		160.2	40	2.00	0.62	6.1	10.0	9.9	7.4	6.4	
MERRILL LYNCH HIGH-INCOME B		938.2	180	4.00**	1.35†	19.6	16.3		10.3	7.1	
MERRILL LYNCH HIGH-QUALITY B		365.9	69	4.00**	1.34†	5.2	9.1		6.6	8.8	
METLIFE-STATE ST. HIGH-INCOME		428.8	69	4.50	1.17†	20.4	11.1	10.1	11.7	7.7	
MFS BOND (h)		463.5	−7	4.75	0.91†	6.3	10.3	10.5	8.0	6.0	
MFS HIGH-INCOME (i)		567.4	7	4.75	1.09†	17.0	13.1	9.7	10.8	7.7	
MFS LIFETIME HIGH-INCOME (j)		253.6	36	6.00**	2.27†	16.0	14.3	9.7	9.7	9.3	
MONITOR SHORT-INTERM F/I TRUST SHARES		123.9	22	No load	0.76	6.2	9.4		7.0	3.5	
NATIONAL BOND		550.6	40	4.75	1.15†	24.7	16.9	8.4	12.2	8.0	
NATIONAL MULTI-SECTOR FIXED-INCOME A		148.6	66	4.75	1.50†	12.1	14.8		9.3	9.5	
NEUBERGER/BERMAN LTD. MATURITY BOND	▲ ▲	269.9	55	No load	0.65	5.7	8.7	8.8	6.4	2.8	
NICHOLAS INCOME	AVG	119.1	49	No load	0.66	10.3	10.3	9.3	8.7	7.1	
NORTHEAST INVESTORS		399.1	31	No load	1.66	17.5	10.5	9.0	12.1	8.0	
OPPENHEIMER HIGH-YIELD	AVG	942.3	29	4.75	0.92†	13.8	12.3	10.5	12.1	7.8	
OPPENHEIMER INVESTMENT GRADE BOND		106.2	17	4.75	1.06†	6.8	9.8		7.1	6.2	
OPPENHEIMER STRATEGIC INCOME A		1917.3	151	4.75	1.19†	7.7	11.9		9.2	6.0	
PACIFICA ASSET PRESERVATION		159.8	94	No load	0.77†	4.8			5.4	1.0	
PAINEWEBBER HIGH-INCOME A	▼ ▼	280.6	17	4.00	0.96†	24.1	18.6	12.3	12.2	7.0	

*Includes redemption fee. **Includes deferred sales charge. †12b-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not meaningful. (d) Formerly Plymouth High-Yield Portfolio. (e) Formerly Plymouth Short-Term Bond Portfolio. (f) Formerly Fidelity Flexible Bond Portfolio. (g) Formerly John Hancock Bond Fund. (h) Formerly Massachusetts Financial Bond Fund. (i) Formerly Massachusetts Fin'l High-Inc. Trust. (j) Formerly MFS Lifetime High-Income Trust

See pages 101 for an explanation of BW Rating, Trend and other terms

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
						TOTAL RET. (%)					
		ASSETS $ MIL	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	1 YR.	3 YRS.	5 YRS.	YIELD	MATURITY (YEARS)	5-YEAR ANALYSIS
EWEBBER INVESTMENT GRADE A	▲	200.3	−9	4.00	1.02†	8.9	11.1	10.9	7.7	15.8	
STONE BOND		449.1	−13	4.00	0.87	5.4	9.5		7.1	7.4	
STONE LIMITED MATURITY BOND		147.4	50	3.00	0.83	4.9	8.3		6.9	2.9	
NIX HIGH-YIELD	▼	128.7	35	4.75	1.18†	17.0	13.0	10.2	9.2	11.0	
EER BOND	▲	107.0	20	4.50	1.09†	7.9	10.2	10.0	7.6	9.4	
MANAGED INCOME INVESTOR CLASS		319.3	474	4.50	0.80†	5.9	9.6		6.5	11.2	
ICO BOND IMMDEX		189.4	88	No load	0.50	7.6	10.7		6.5	10.5	
ICO SHORT-INTERM. FIXED-INCOME		133.1	91	No load	0.60	6.8	9.3		5.9	3.2	
WE PRICE HIGH-YIELD	▼	1204.6	24	No load	0.89	14.7	10.2	9.2	9.9	9.7	
WE PRICE NEW INCOME	▲	1461.3	4	No load	0.87	5.1	9.7	9.8	6.7	7.7	
WE PRICE SHORT-TERM BOND	▲ ▲	543.8	35	No load	0.79	5.0	8.3	8.0	6.7	2.3	
ENTIAL HIGH-YIELD B	▼ ▼	2887.7	31	5.00**	1.41†	14.6	11.6	8.9	9.7	8.7	
ENTIAL STRUCTURED MATURITY A		109.8	0	3.25	0.63†	6.7	9.8		7.1	4.6	
AM DIVERSIFIED INCOME		411.8	122	4.75	1.47†	12.3	13.4		8.3	8.1	
AM HIGH YIELD	▼	2643.4	37	4.75	0.97†	19.3	16.1	11.6	12.3	8.3	
AM HIGH YIELD ADVANTAGE (k)	▼	493.8	40	4.75	1.33†	18.6	16.7	11.8	12.5	8.0	
AM INCOME	▲	667.6	27	4.75	0.91†	9.8	10.7	10.9	8.6	11.0	
CTIVELY MANAGED BOND	AVG	190.8	NM	No load	0.84†	6.7	10.5	9.8	0.0	9.7	
DER INCOME	▲ ▲	456.2	13	No load	0.97	6.7	10.7	10.8	6.7	11.8	
DER SHORT-TERM BOND	▲ ▲ ▲	2854.4	28	No load	0.78	5.5	9.8	9.8	8.0	3.0	
RSON DIVERSIFIED STRATEGIC INCOME B		1677.7	89	5.00**	1.62†	6.0	10.8		8.5	15.9	
RSON HIGH-INCOME B	▼ ▼	324.1	30	4.50**	1.65†	19.6	11.9	8.5	10.3	8.3	
RSON INVESTMENT GRADE BOND B	▼	429.8	4	4.50**	1.56†	8.3	11.0	11.4	7.2	27.0	
A CORPORATE INCOME (l)		257.6	192	4.50	0.97†	9.7			8.0	22.0	
IROE INCOME	▲	118.0	11	No load	0.90	8.9	10.6	10.1	7.8	10.6	
IROE INTERMEDIATE BOND	▲	273.9	24	No load	0.70	7.5	9.8	9.9	7.4	11.2	
NG ADVANTAGE		272.3	90	No load	1.00	8.5	8.6		7.1	4.8	
NG SHORT-TERM BOND	▲ ▲ ▲	756.9	359	No load	0.50	6.7	8.8	9.1	7.9	2.7	
ASON INCOME B	▼	234.7	−9	1.00*	1.90†	7.4	7.1	7.4	8.5	8.0	
OND INCOME (m)	▲	145.2	28	4.50	1.10†	7.4	10.9	10.4	7.1	11.7	
SAMERICA INVESTMENT QUALITY BOND	▼	111.4	13	4.75	1.70†	5.9	10.4	9.9	8.6	5.3	
SAMERICA SPECIAL HIGH-YIELD BOND	▼ ▼	105.9	43	6.00**	2.24†	13.2	12.3	7.5	10.5	6.7	
ITIETH CENTURY LONG-TERM BOND	AVG	145.6	20	No load	0.98	5.5	9.6	10.2	6.3	4.7	
ED BOND	AVG	589.6	12	8.50	0.65	7.5	10.0	9.9	7.3	19.1	
ED HIGH-INCOME	▼ ▼ ▼	945.2	10	8.50	0.79	16.6	11.0	7.0	9.6	9.8	
ED HIGH-INCOME II	▼ ▼	344.8	15	8.50	0.84	15.5	12.8	9.5	9.3	9.6	
AASTER MANAGED INCOME	AVG	110.5	19	4.50	0.94	5.9	10.3	11.1	6.2	16.0	
KAMPEN MERRITT HIGH-YIELD	▼ ▼ ▼	226.0	10	4.90	1.42†	17.0	11.8	7.8	11.4	7.8	
GUARD BOND MARKET	▲	1059.9	25	No load	0.20	7.1	10.3	10.4	7.0	8.9	
GUARD FIXED-INC. HIGH-YIELD CORP.	▼	2021.0	39	No load	0.36	14.2	11.5	9.9	9.9	9.0	
GUARD FIXED-INC. INVSTMT. GRADE	AVG	2619.2	31	No load	0.34	9.8	12.1	12.2	7.6	17.9	
GUARD FIXED-INC. SHORT-TERM CORP.	▲ ▲ ▲	2696.1	44	No load	0.30	7.3	9.8	9.6	6.4	3.4	
AM BLAIR INCOME SHARES		136.9	65	No load	0.91	6.7			7.8	5.1	
DWARD BOND		316.5	36	4.50	0.74†	6.6			8.6	6.1	
DWARD INTERMEDIATE BOND		214.7	68	4.50	0.75†	6.1			7.3	4.2	
VERNMENT											
GNMA & U.S. TREASURY	▲ ▲	5546.9	48	No load	0.72	6.6	10.2	9.8	7.6	3.6	
ANTAGE GOVERNMENT SECURITIES	AVG	144.2	19	4.00**	1.40†	9.8	11.0	9.5	6.6	21.1	
LIMITED MATURITY TREASURY	▲ ▲ ▲	274.9	77	1.00	0.48†	5.7	8.4	8.1	5.1	1.5	
NCE BOND U.S. GOVERNMENT A	AVG	492.7	−3	3.00	1.12†	6.0	9.8	9.7	8.2	8.0	
NCE MTG. SECS. INCOME A	▲	789.9	46	3.00	1.20†	7.7	11.3	10.7	8.9	5.0	
RICAN CAPITAL GOVT. SECS. A	AVG	3635.9	−6	4.75	0.96†	6.6	10.4	10.6	8.2	6.8	
S U.S. GOVERNMENT & MORTGAGE		209.6	84	3.00	0.43†	7.8			7.7	26.0	
IAM ADJUSTABLE RATE GOVT SECS		1520.8	243	No load	0.37	5.3			6.1	0.8	
IAM GNMA INCOME	▲ ▲	1006.1	43	No load	0.57	7.5	11.0	11.0	7.4	9.0	
IAM TARGET MATURITIES 2000	▼ ▼	186.8	96	No load	0.66	7.8	11.0	13.0	6.8	7.9	
IAM TARGET MATURITIES 2005	▼ ▼ ▼	167.2	−12	No load	0.63	8.9	10.4	13.9	7.3	12.8	
IAM TREASURY NOTE	AVG	360.0	19	No load	0.54	6.5	9.8	9.3	5.4	3.9	
STEIN GOVT. SHORT DURATION		241.6	7	No load	0.68	5.5	8.5		4.6	5.5	

es redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not meaningful.
nerly Putnam High-Yield Trust II. (l) Formerly GW Corporate Income Fund. (m) Formerly New England Bond Income Fund

DATA: MORNINGSTAR INC.

See pages 101 for an explanation of BW Rating, Trend and other terms

MUTUAL FUND SCOREBOARD

BOND FUNDS

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREN
		ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%) 1 YR.	3 YRS.	5 YRS.	YIELD	MATURITY (YEARS)	5-YEA ANALY
BLACKROCK GOVERNMENT INCOME A (n)		131.4	−4	3.00	1.18†	2.6			6.6	24.4	
CARDINAL GOVERNMENT OBLIGATIONS	▲ ▲	180.3	32	4.50	0.73	6.4	9.9	9.8	8.9	12.4	
COLONIAL FEDERAL SECURITIES A (o)	▼	1782.8	−13	4.75	1.26†	6.0	9.2	10.0	7.3	14.0	
COLONIAL U.S. GOVERNMENT A	▲	1218.5	78	4.75	1.09†	5.0	8.6	8.7	8.3	3.1	
COMMON SENSE GOVERNMENT	▼	291.1	47	6.75	0.96	6.8	10.1	9.9	7.3	6.8	
COMPOSITE U.S. GOVERNMENT	▲	206.6	56	4.00	1.01†	6.1	10.0	10.1	7.1	6.7	
COMSTOCK PARTNERS STRATEGY		579.3	−37	4.50	1.06	−1.2	4.8		9.7	22.0	
DEAN WITTER FEDERAL SECURITIES (p)	AVG	1153.8	−11	5.00**	1.48†	6.9	9.3	9.6	7.5	16.2	
DEAN WITTER U.S. GOVERNMENT	▲	12440.7	13	5.00**	1.21†	6.9	8.8	8.8	9.0	5.6	
DELAWARE TREAS. RESERVES INTERM. (q)	▲ ▲ ▲	909.8	521	3.00	0.88†	5.6	9.3	8.7	7.4	3.2	
DELAWARE U.S. GOVERNMENT (r)	AVG	210.3	28	4.75	1.17†	6.4	10.0	9.6	8.7	5.7	
DREYFUS 100% U.S. TREAS. INTERM.	AVG	231.1	26	No load	0.49	7.2	10.3	9.9	7.6	7.0	
DREYFUS 100% U.S. TREASURY LONG	AVG	238.8	10	No load	0.56	7.5	10.8	11.3	7.5	21.6	
DREYFUS GNMA	▲	1837.1	1	No load	0.94†	6.3	10.1	9.7	7.5	22.5	
DREYFUS SHORT-INTERM. GOVT.	▲ ▲ ▲	350.1	156	No load	0.33	7.0	10.2	9.5	7.0	3.1	
EATON VANCE GOVT. OBLIGATIONS	▲	467.8	33	4.75	1.49†	5.3	9.5	9.8	8.8	5.0	
FEDERATED ARMS INSTITUTIONAL (s)		1494.0	4256	No load	0.64	3.7	8.6	9.8	5.9	4.4	
FEDERATED GNMA INSTITUTIONAL	▲ ▲	1712.0	27	No load	0.51	6.5	10.7	11.0	8.0	5.6	
FEDERATED INCOME INSTITUTIONAL	▲ ▲ ▲	1483.2	20	No load	0.50	5.7	9.9	10.0	7.6	4.9	
FEDERATED INTERM. GOVT. INSTIT.	▲	818.3	7	No load	0.50	6.7	9.8	9.3	5.6	3.0	
FEDERATED S/I GOVT. INSTITUTIONAL	▲ ▲ ▲	1017.6	−15	No load	0.49	5.2	8.3	8.2	4.8	1.6	
FIDELITY GINNIE MAE	▲ ▲	947.4	6	No load	0.80	6.9	10.3	10.4	6.9	7.8	
FIDELITY GOVERNMENT SECURITIES	▲ ▲	568.1	9	No load	0.70	8.2	11.2	10.5	7.2	12.9	
FIDELITY MORTGAGE SECURITIES	▲ ▲	429.7	−2	No load	0.80	4.8	9.5	9.8	6.4	9.1	
FIDELITY SHORT-INTERM. GOVT. (t)		149.6	475	No load	0.28	4.8			6.6	3.9	
FIDELITY SPARTAN GINNIE MAE		761.6	8	No load	0.17	6.7			7.6	8.2	
FIDELITY SPARTAN GOVT. INCOME		475.1	−9	No load	0.65	7.0	10.4		6.7	11.2	
FIDELITY SPARTAN LTD. MATURITY GOVT.		1618.6	−22	No load	0.61	6.1	9.0		6.2	5.6	
FIRST INVESTORS GOVERNMENT	AVG	304.7	−4	6.90	1.35†	5.8	10.1	10.4	6.4	20.5	
FLAG INVESTORS TOTAL RET. TREAS.		243.8	−1	4.50	0.77†	4.5	8.9		8.0	11.3	
FORTIS U.S. GOVERNMENT SECS. (u)	▲	588.0	30	4.50	0.72	5.6	9.9	9.9	8.5	6.1	
FORTRESS ADJ. RATE U.S. GOVT.		1176.0	88	1.00*	0.63†	4.6			5.6	4.4	
FRANKLIN ADJ. U.S. GOVT. SECS.	▲ ▲ ▲	3074.5	−16	2.25	0.34†	4.0	7.4	7.8	5.5	4.5	
FRANKLIN SHORT-INTERM. GOVT.	▲ ▲	232.9	60	2.25	0.56	6.2	9.3	8.6	5.2	4.0	
FRANKLIN TAX-ADV. U.S. GOVT.	▲ ▲	312.6	143	4.00	0.74	7.0	10.6	10.6	7.2	28.0	
FRANKLIN U.S. GOVERNMENT	▲ ▲	13631.9	5	4.00	0.53	7.3	10.6	10.4	8.1	26.0	
FUND FOR U.S. GOVERNMENT	▲ ▲	1700.4	27	4.50	0.84	5.3	9.4	9.8	8.3	5.1	
GNA INVESTORS U.S. GOVERNMENT	▲	862.0	203	5.00**	1.71†	5.8	9.5	9.7	7.4	16.8	
GOVERNMENT INCOME SECURITIES	▲ ▲	3454.5	62	2.00*	0.90	6.1	9.5	9.9	8.4	4.1	
GRADISON-MCDONALD GOVT. INCOME (v)	▲	210.9	39	2.00	0.96†	6.3	9.7	9.8	6.4	5.8	
JOHN HANCOCK SOVEREIGN U.S. GOVT. B (w)	▲	203.7	16	4.00**	1.55†	4.9	11.3	11.2	7.0	6.2	
JOHN HANCOCK U.S. GOVERNMENT SECS.	AVG	259.2	23	4.50	1.51†	4.2	8.1	8.3	6.1	3.4	
IDS FEDERAL INCOME	▲ ▲	955.7	73	5.00	0.79†	7.2	9.4	9.5	7.3	7.8	
ISI TOTAL RETURN U.S. TREASURY		208.1	17	4.45	0.80†	4.5	8.9		8.0	11.3	
KEMPER ADJUSTABLE RATE U.S. GOVT (x)	AVG	202.4	153	3.50	0.39	6.1	8.9	8.6	5.7	3.5	
KEMPER INVESTMENT PORT. GOVERNMENT		4898.8	−9	3.00**	1.86†	4.5	9.4	8.8	7.9	4.5	
KEMPER INVESTMENT PORT. SHORT-INT GOVT		234.5	79	3.00**	1.89†	5.3	7.8		6.1	3.4	
KEMPER U.S. GOVERNMENT SECS.	AVG	6775.8	15	4.50	0.63	4.6	10.4	10.3	8.3	4.8	
KEYSTONE AMER. CAP. PRES. & INC. II		186.9	58	3.00**	1.14†	2.9			5.5	4.0	
LEGG MASON U.S. GOVT. INTERMED. TERM	▲	307.3	46	No load	0.85†	6.2	9.9	9.8	5.3	8.6	
LEXINGTON GNMA INCOME	AVG	132.0	8	No load	1.02	5.2	10.0	10.5	7.4	12.0	
LIBERTY FINANCIAL U.S. GOVT. (y)	▲ ▲	873.1	40	4.50	0.86†	6.0	10.2	9.4	7.8	23.5	
LORD ABBETT U.S. GOVERNMENT	AVG	3395.0	39	4.75	0.94†	6.9	11.0	10.7	8.7	8.2	
MAINSTAY GOVERNMENT	▼	1054.2	47	5.00**	1.80†	3.8	8.0	8.5	8.1	10.5	
MANAGERS SHORT GOVERNMENT INCOME	▲ ▲	144.6	−1	No load	1.78	3.7	7.2	7.2	6.1	2.6	
MERRILL LYNCH ADJ. RATE SECS. B		937.7	33	3.00**	1.36†	2.8			5.1	3.7	
MERRILL LYNCH FEDERAL SECS. B		2168.3	20	4.00**	1.33†	5.2			6.3	7.6	
METLIFE-STATE ST. GOVT. INCOME	AVG	811.5	8	No load	1.05†	6.8	10.5	10.1	7.2	11.2	
MFS GOVERNMENT INCOME PLUS (z)		710.9	−21	4.75	1.41†	6.2	7.6	8.7	6.0	10.0	
MFS GOVERNMENT PREMIUM (aa)		297.1	−19	3.75	1.38†	6.0	6.6		4.8	4.5	

(n) Formerly Blackstone Government Income Trust (A). (o) Formerly Colonial Govt. Securities Plus Trust. (p) Formerly Dean Witter Government Securities Plus. (q) Formerly Delaware Group Treas. Res. Inv. Ser. II. (r) Formerly Delaware Gr Govt.Fund Gov Inc Ser II. (s) Formerly Federated U.S. Government Fund. (t) Formerly Fidelity Limited Maturity Govt. Fund. (u) Formerly AMEV U.S. Government Securities Fund. (v) Formerly Gradison Government Income Fund. (w) Formerly Freed Govt. Income Fund (Class B). (x) Formerly Kemper Enhanced Government Income Fund. (y) Formerly Liberty Advantage U.S. Govt. Secs. Fund. (z) Formerly MFS Government Income Plus Trust. (aa) Formerly MFS Government Premium Acc

See pages 101 for an explanation of BW Rating, Trend and other terms

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET (%) 1 YR.	3 YRS.	5 YRS.	YIELD	MATURITY (YEARS)	5-YEAR ANALYSIS
GOVERNMENT SECURITIES (bb)	AVG	337.1	−6	4.75	1.25†	7.1	9.7	9.5	7.1	7.6	
LIFETIME GOVERNMENT INCOME PLUS (cc)	▼	2466.3	−15	6.00**	1.96†	5.8	7.3	7.9	5.5	8.8	
LIFETIME INTERMEDIATE-INCOME (dd)		355.4	71	6.00**	2.22†	2.4	7.0		6.0	4.5	
ONAL FEDERAL SECURITIES	▼	319.9	−11	4.75	0.91†	7.8	10.3	9.6	8.4	12.0	
TH AMERICAN U.S. GOVERNMENT	AVG	140.5	161	4.00	0.19†	6.1	9.2	9.0	6.4	3.9	
ENHEIMER GOVERNMENT SECURITIES (ee)	▲	154.0	−4	4.50	0.98†	4.4	10.0	10.2	7.3	6.5	
ENHEIMER U.S. GOVERNMENT	AVG	399.1	0	4.75	1.17†	5.0	9.2	9.3	7.0	6.5	
RLAND EXPRESS VARIABLE RATE		2559.3	351	3.00	0.74†	4.2			6.0	24.4	
FICA GOVERNMENT INCOME		185.3	91	4.50	0.79†	5.3			7.1	7.0	
IEWEBBER U.S. GOVT INC. A	AVG	706.3	−6	4.00	0.93†	6.2	10.2	10.2	7.3	26.1	
KSTONE INTERMEDIATE GOVT.		275.9	27	4.00	0.87	5.2	9.2		6.8	3.9	
MANENT PORTFOLIO TREASURY BILL	▲ ▲ ▲	167.8	−46	No load	0.66†	2.9	5.1	6.0	3.8	0.2	
RIM ADJUSTABLE U.S. GOVT. I		775.1	59	4.00**‡	1.88†	6.1			7.2	26.8	
R JAFFRAY GOVERNMENT INCOME	▼	132.4	62	4.00	1.14†	4.3	10.5	9.7	9.4	5.5	
MIER GNMA	▲ ▲ ▲	164.0	45	4.50	0.73†	6.5	10.8	11.5	7.3	23.4	
OWE PRICE ADJ. RATE U.S.		558.4	436	No load	0.11	3.9			6.6	0.7	
OWE PRICE GNMA	▲ ▲	863.6	18	No load	0.80	6.5	10.4	10.2	7.8	6.8	
OWE PRICE U.S. TREAS. INTERMEDIATE		151.4	20	No load	0.80	6.3	10.0		6.0	4.4	
COR GOVT. SECURITIES INCOME	AVG	177.3	67	5.00	0.89†	6.2	10.7	11.2	6.9	26.4	
DENTIAL ADJ. RATE SECS. A		224.2	NM	1.00	NA †	1.4§				26.3	
DENTIAL GNMA B	AVG	326.0	20	5.00**	1.62†	5.2	8.5	8.5	6.6	12.6	
DENTIAL GOVERNMENT PLUS B	AVG	2639.6	−7	5.00**	1.69†	6.4	9.2	9.6	6.8	13.2	
DENTIAL GOVERNMENT INTERM.-TERM	▲	301.0	1	No load	0.84†	5.5	8.9	8.9	6.9	3.5	
DENTIAL U.S. GOVERNMENT B	▼	160.6	−1	5.00**	2.09†	5.2	7.8	8.9	6.0	14.9	
IAM ADJ. RATE U.S. GOVT. A	AVG	359.4	37	3.25	1.29†	3.9	6.5	6.6	6.2	10.7	
IAM AMERICAN GOVERNMENT INC. (ff)	▼	3916.2	−19	4.75	0.96†	6.0	7.5	8.2	6.6	13.6	
IAM FEDERAL INCOME	▼	654.8	−11	4.75	1.17†	6.0	9.7	9.8	8.0	11.0	
IAM U.S. GOVERNMENT INCOME A	▲	4540.1	48	4.75	1.01†	6.6	9.4	9.7	8.6	9.8	
ST FOR VALUE U.S. GOVT.		152.8	3	4.75	1.15†	6.3	9.6		6.2	21.5	
IERI ADJUSTABLE RATE U.S. GOVT. I		233.6	−20	3.00	0.69†	3.5			7.0	0.7	
WAB U.S. GOVT. SHORT/INTERM.		226.2	241	No load	0.38	6.0			5.7	3.9	
DER GNMA	▲	512.0	56	No load	0.94	7.0	10.7	10.3	8.4	6.2	
RSON GOVERNMENT SECURITIES B	▼	1043.4	−19	4.50**	1.44†	5.6	9.5	10.0	6.7	10.0	
RSON MANAGED GOVERNMENTS A	AVG	473.3	−5	4.50	0.82†	6.1	11.0	10.0	7.5	17.1	
RA U.S. GOVERNMENT (gg)		706.5	116	4.50	0.72†	6.4	10.4		7.5	8.7	
H BARNEY U.S. GOVERNMENT A	AVG	461.3	17	4.00	0.51	6.8	10.7	11.0	8.3	22.3	
ECOACH GINNIE MAE (hh)		184.8	430	4.50	0.72†	7.0			7.4	25.7	
ECOACH U.S. GOVT. ALLOCATION (ii)	▼	127.6	324	4.50	1.02†	4.8	8.9	9.3	4.2	25.4	
AMERICA FEDERAL SECURITIES (jj)	▲	126.1	−1	5.00**	1.87†	5.3	9.8	9.8	6.4	22.4	
AMERICA U.S. GOVERNMENT	▲ ▲ ▲	1271.0	60	5.00**	1.92†	5.5	8.1	8.1	8.0	17.2	
MSON SHORT-INTERM. GOVT. B		136.8	125	1.00*	1.30†	2.2			5.5	2.6	
MSON U.S. GOVERNMENT B	AVG	532.4	25	1.00*	1.80†	2.7	8.2	8.6	7.2	5.3	
RNBURG LIMITED-TERM U.S. GOVT (kk)	▲ ▲	148.3	142	2.25	1.00†	7.3	9.6	9.1	6.4	4.7	
ADJUSTABLE RATE U.S. GOVT.		294.7	394	3.00	0.57†	5.3			5.7	3.0	
GOVERNMENT SECURITIES (ll)	▼ ▼	178.0	−1	4.50	1.22†	6.8	9.0	9.5	5.7	10.0	
PREMIUM INCOME (mm)		477.4	76	3.00	1.18†	5.6	10.0		6.3	5.0	
ISAMERICA GOVERNMENT SECURITIES	▼	724.1	−6	4.75	1.53†	6.3	10.6	9.6	8.7	6.9	
ISAMERICA SPECIAL GOVT. INC.	AVG	237.1	52	6.00**	2.00†	5.4	8.7	9.3	8.0	6.1	
NTIETH CENTURY U.S. GOVERNMENTS	▲	539.1	−3	No load	0.99	4.4	7.8	7.8	4.4	1.5	
GOVERNMENT SECURITIES	▲	1359.6	18	4.75	0.88†	7.6	10.5	10.0	8.3	9.2	
ED GOVERNMENT SECURITIES	AVG	167.2	21	4.25	0.78	7.1	10.3	9.9	6.4	14.9	
INVESTMENT FEDERAL GNMA		232.8	110	No load	0.38	6.1			7.8	8.3	
IE LINE U.S. GOVERNMENT	▲ ▲	419.3	10	No load	0.63	6.3	10.9	10.5	7.1	24.5	
KAMPEN U.S. GOVERNMENT	AVG	3559.3	2	4.90	0.72†	6.3	10.5	10.6	8.7	6.8	
GUARD FIXED-INCOME GNMA	▲ ▲	6920.6	31	No load	0.32	6.9	11.2	11.4	7.6	9.2	
GUARD FIXED-INC. INTERM.-TERM U.S.		604.8	335	No load	0.30	7.8			6.4	7.7	
GUARD FIXED-INC. LONG-TERM U.S.	▼	856.8	−4	No load	0.30	7.4	10.1	11.4	7.0	21.9	
GUARD FIXED-INC. SHORT-TERM FEDERAL	▲ ▲	1622.5	38	No load	0.30	6.2	9.2	8.9	5.9	3.7	
GUARD FIXED-INC. SHORT-TERM U.S.		483.4	643	No load	0.30	6.7			5.1	2.9	
GOVERNMENT SECURITIES	▲ ▲	263.8	37	No load	0.76	7.9	10.2	10.5	7.2	6.0	

rmerly MFS Government Securities Trust. (cc) Formerly MFS Lifetime Government Inc. Plus Trust. (dd) Formerly MFS Lifetime Intermediate-Income Trust. (ee) Formerly First Trust Fund U.S. Government Series. (ff) Formerly High Income Government Trust. (gg) Formerly GW U.S. Government Securities Fund. (hh) Formerly Wells Fargo Inv. Trust Ginnie Mae Fund. (ii) Wells Fargo Inv. Trust F/I Strategy. (jj) Home Investors Government Fund. (kk) Formerly Limited-Term U.S. Government Fund. (ll) Formerly New England Government Securities Fund. (mm) Formerly Invest. Tr. of Boston Premium Inc.Port..

See pages 101 for an explanation of BW Rating, Trend and other terms

MUTUAL FUND SCOREBOARD

MUNICIPAL

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREN
		ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%) 1 YR.	3 YRS.	5 YRS.	YIELD	MATURITY (YEARS)	5-YEA ANALYS
AARP INSURED TAX-FREE GENERAL BOND		1570.0	35	No load	0.74	8.6	9.0	10.0	5.1	14.8	
ABT FLORIDA TAX-FREE		182.5	42	4.75	0.41†	9.1			6.5	21.3	
AIM MUNICIPAL BOND(C) (nn)		271.2	−1	4.75	0.94†	8.3	9.1	9.9	6.2	25.7	
ALLIANCE MUNI. INC. CALIFORNIA A		389.8	65	4.50	0.48†	9.4	9.3	10.8	6.2	27.0	
ALLIANCE MUNI. INCOME NATIONAL A		284.3	35	4.50	0.78†	10.4	9.9	10.5	6.2	25.0	
ALLIANCE MUNI. INCOME NEW YORK A		170.0	22	4.50	0.68†	10.7	9.7	9.8	6.2	26.0	
ALLIANCE MUNI. INSURED NATL. A		158.1	18	4.50	0.74†	9.2	9.4	10.3	5.9	24.0	
AMERICAN CAPITAL MUNI BOND A	AVG	301.4	10	4.75	0.90†	8.8	8.7	10.2	6.2	21.3	
AMERICAN CAPITAL T/E H/Y MUNI. A		310.9	36	4.75‡	1.06†	9.0	8.5	8.7	7.6	20.0	
BENHAM CA TAX-FREE INSURED		154.9	36	No load	0.55	9.1	9.0	9.6	5.5	19.4	
BENHAM CA TAX-FREE INTERM.-TERM	AVG	329.1	27	No load	0.52	7.0	8.1	7.6	5.3	7.4	
BENHAM CA TAX-FREE LONG-TERM		291.7	12	No load	0.52	8.1	8.8	9.3	5.9	21.8	
BERNSTEIN DIVERSIFIED MUNICIPAL		328.2	42	No load	0.69	6.6	7.8		5.2	7.7	
BERNSTEIN NEW YORK MUNICIPAL		249.2	23	No load	0.69	6.9	8.0		5.4	6.5	
CALIFORNIA TAX-FREE INCOME	AVG	226.8	35	No load	0.60	8.8	9.2	9.8	5.8	22.8	
CALVERT T/F RESERVES LTD.-TERM		567.0	95	2.00	0.72	5.1	6.0	6.4	4.7	0.9	
CHURCHILL TAX-FREE OF KY		192.7	69	4.00	0.27	9.0	8.8	10.0	6.7	13.7	
COLONIAL CALIFORNIA TAX-EXEMPT A		328.7	10	4.75	0.77	7.8	8.3	9.2	6.2	9.5	
COLONIAL MA TAX-EXEMPT A		183.2	30	4.75	0.53	9.0	9.5	9.6	6.1	6.8	
COLONIAL TAX-EXEMPT A		2960.8	16	4.75	1.05†	8.3	8.8	9.0	6.6	10.5	
COLONIAL TAX-EXEMPT INSURED A	AVG	220.8	11	4.75	1.08†	7.5	8.5	9.1	5.9	9.1	
COLUMBIA MUNICIPAL BOND		341.9	20	No load	0.58	6.5	8.3	8.8	5.7	16.1	
COMPOSITE TAX-EXEMPT BOND	AVG	186.2	33	4.00	0.79†	9.0	9.0	9.1	5.4	10.3	
DEAN WITTER CA TAX-FREE INCOME		982.9	23	5.00**	1.32†	8.1	7.9	8.9	5.7	21.9	
DEAN WITTER NY TAX-FREE INCOME		207.3	18	5.00**	1.40†	8.2	8.2	9.0	5.0	23.4	
DEAN WITTER TAX-EXEMPT SECS.		1318.5	10	4.00	0.50	8.4	8.8	10.0	6.1	21.7	
DELAWARE TAX-FREE PENNSYLVANIA (oo)	AVG	884.2	16	4.75	0.72†	9.1	8.8	9.7	6.2	7.7	
DELAWARE TAX-FREE USA (pp)	AVG	708.1	3	4.75	0.80†	9.1	8.4	10.0	6.6	8.9	
DREYFUS CA TAX-EXEMPT BOND	AVG	1787.2	3	No load	0.68	6.7	7.9	8.4	6.0	24.5	
DREYFUS FL INTERMEDIATE MUNI.		332.6	NM	No load	NA	9.1§				8.7	
DREYFUS INSURED MUNICIPAL BOND	AVG	264.3	8	No load	0.96†	7.7	8.7	9.0	5.8	24.7	
DREYFUS INTERMEDIATE MUNI. BOND		1570.6	14	No load	0.70	8.7	8.9	8.7	5.9	9.7	
DREYFUS MA TAX-EXEMPT BOND		172.3	16	No load	0.84	7.5	8.7	8.9	5.9	23.3	
DREYFUS MUNICIPAL BOND (qq)		4325.7	5	No load	0.68	8.4	8.9	9.5	6.3	22.8	
DREYFUS NJ MUNICIPAL BOND		614.5	19	No load	0.73†	8.8	9.5	10.1	6.0	23.7	
DREYFUS NY INSURED T/E BOND		180.3	22	No load	0.90†	8.5	9.1	9.5	5.4	23.7	
DREYFUS NY T/E INTERMED. BOND		234.3	59	No load	0.85†	9.4	8.8	9.1	5.5	9.1	
DREYFUS NY TAX-EXEMPT BOND		2014.1	7	No load	0.69	8.9	8.9	9.1	6.2	22.9	
DREYFUS SHORT-INTERM. TAX-EXEMPT		341.5	116	No load	0.73†	6.7	7.2	6.8	5.0	2.9	
DUPREE KY TAX-FREE INCOME		194.7	37	No load	0.71	9.0	9.1	9.7	6.0	12.5	
EATON VANCE CALIFORNIA MUNI.		407.0	13	6.00**	1.86†	6.1	6.8	7.7	6.2	14.8	
EATON VANCE FL TAX-FREE		463.3	647	6.00**	1.64†	8.1			6.0	25.5	
EATON VANCE MA TAX-FREE		166.0	NM	6.00**	1.64†	8.1			6.2	11.7	
EATON VANCE NATIONAL MUNICIPALS		1563.6	28	6.00**	1.79†	10.1	8.4	8.8	6.8	25.1	
EATON VANCE NEW JERSEY TAX-FREE		235.3	951	6.00**	1.63†	7.8			5.9	13.2	
EATON VANCE NEW YORK TAX-FREE		415.1	604	6.00**	1.65†	9.2			6.1	24.4	
EATON VANCE OHIO TAX-FREE		164.4	NM	6.00**	1.65†	8.3			6.1	21.7	
EATON VANCE PA TAX-FREE		280.2	1129	6.00**	1.64†	7.7			6.1	22.4	
FEDERATED INTERMEDIATE MUNICIPAL	AVG	203.4	36	No load	0.47	7.1	8.1	7.7	5.4	6.9	
FEDERATED SHORT-INTERM. MUNI.		245.0	45	No load	0.46	5.1	6.2	6.2	4.6	1.8	
FEDERATED TAX-FREE INCOME	AVG	697.4	14	4.50	0.80	8.4	8.9	9.7	5.8	26.0	
FIDELITY ADVISOR HIGH-INC. MUNI. (rr)		198.5	157	4.75	0.90†	11.2	11.2	11.7	6.5	19.0	
FIDELITY AGGRESSIVE TAX-FREE		758.5	17	1.00*	0.66	9.2	9.5	10.2	7.0	21.7	
FIDELITY CA TAX-FREE HIGH-YIELD		548.2	2	No load	0.59	8.7	8.6	9.4	6.2	21.7	
FIDELITY CA TAX-FREE INSURED		226.4	42	No load	0.62	9.2	9.0	9.5	5.8	21.7	
FIDELITY HIGH-YIELD TAX-FREE		2060.2	3	No load	0.57	8.5	9.0	10.1	6.4	21.0	
FIDELITY INSURED TAX-FREE	AVG	368.8	22	No load	0.63	8.0	8.9	9.4	5.9	20.7	
FIDELITY LIMITED-TERM MUNICIPALS		964.7	39	No load	0.67	8.3	8.8	8.5	6.0	11.0	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not meaning (nn) Formerly CIGNA Municipal Bond Fund. (oo) Formerly DMC Tax-Free Income Trust Pennsylvania. (pp) Formerly Delaware Tax-Free Fund USA Series. (qq) Formerly Dreyfus Tax-Exempt Bond Fund. (rr) Formerly Plymo High-Income Municipal Port.

See pages 101 for an explanation of BW Rating, Trend and other terms

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
						TOTAL RET. (%)					
		ASSETS $ MIL	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	1 YR.	3 YRS.	5 YRS.	YIELD	MATURITY (YEARS)	5-YEAR ANALYSIS
ITY MA TAX-FREE HIGH-YIELD	▲ ▲	1230.1	24	No load	0.57	9.3	9.3	9.6	6.2	19.8	
ITY MI TAX-FREE HIGH-YIELD	▲	460.8	22	No load	0.61	9.5	8.9	9.9	6.2	21.0	
ITY MN TAX-FREE	▲	278.4	26	No load	0.67	7.7	7.8	9.0	6.3	21.1	
ITY MUNICIPAL BOND	▲	1186.3	2	No load	0.50	9.0	9.3	9.9	6.1	22.8	
ITY NY TAX-FREE HIGH-YIELD	▲	437.3	6	No load	0.60	9.1	9.1	9.7	6.2	23.0	
ITY NY TAX-FREE INSURED	AVG	352.0	20	No load	0.60	8.7	9.1	9.5	5.9	22.0	
ITY OH TAX-FREE HIGH-YIELD	▲	384.2	18	No load	0.63	8.4	9.1	10.0	6.0	19.9	
ITY SPARTAN CA MUNI H/Y		514.6	18	0.50*	0.40	8.8	9.5		6.1	23.8	
ITY SPARTAN CT MUNI H/Y	AVG	419.2	17	0.50*	0.53	8.3	8.5	9.2	6.2	21.3	
ITY SPARTAN MUNI INCOME		820.5	16	0.50*	0.36	8.5			6.6	20.8	
ITY SPARTAN NJ MUNI H/Y		347.2	17	0.50*	0.50	8.8	9.4		6.2	19.9	
ITY SPARTAN NY MUNI H/Y		345.7	34	0.50*	0.47	9.5			6.1	23.6	
ITY SPARTAN PA MUNI H/Y	▲ ▲	241.4	22	0.50*	0.55	9.2	9.6	10.6	6.6	21.5	
ITY SPARTAN SHORT-INTERM. MUNI	▲ ▲	655.8	171	No load	0.55	6.4	7.2	6.6	5.1	3.7	
NCIAL TAX-FREE INCOME SHARES	▲ ▲	293.6	19	No load	1.02†	8.8	9.5	11.0	5.6	26.1	
INVESTORS INSURED T/E	AVG	1352.3	12	6.90	1.14†	8.1	8.1	8.8	6.3	18.0	
INVESTORS NY INS. T/F	▲ ▲	180.6	11	6.90	1.30†	8.8	8.5	8.9	5.7	20.0	
SHIP ALL-AMERICAN TAX-EXEMPT		147.0	29	4.20	0.56†	10.6	10.2		6.4	23.0	
SHIP CT DOUBLE TAX-EXEMPT	▲ ▲	165.5	32	4.20	0.65†	8.9	8.5	9.3	6.0	20.3	
SHIP FL DOUBLE TAX-EXEMPT		341.3	46	4.20	0.26†	8.7			6.3	23.2	
SHIP KY TRIPLE TAX-EXEMPT	AVG	254.8	42	4.20	0.62†	9.3	9.4	10.5	6.2	20.9	
SHIP LIMITED-TERM TAX-EXEMPT	▲ ▲	416.1	134	2.50	0.47†	8.8	8.5	8.0	5.5	5.0	
SHIP MI TRIPLE TAX-EXEMPT	▲	204.9	28	4.20	0.81†	9.6	8.8	9.8	6.0	19.6	
SHIP NC TRIPLE TAX-EXEMPT	▲	153.0	26	4.20	0.98†	8.8	8.7	9.7	5.8	18.9	
SHIP OH DOUBLE TAX-EXEMPT	AVG	366.2	20	4.20	0.95†	8.5	8.8	9.8	6.0	19.0	
SHIP TN DOUBLE TAX-EXEMPT	▲	159.7	35	4.20	0.84†	9.1	8.8	9.8	5.8	21.3	
RESS MUNICIPAL INCOME	▲ ▲ ▲	277.4	53	2.00*	1.05†	8.0	8.5	9.7	6.0	26.5	
IKLIN AZ TAX-FREE INCOME	AVG	668.9	16	4.00	0.55	9.9	9.3	9.8	6.0	17.0	
IKLIN CA INSURED TAX-FREE INCOME	▲	1119.4	52	4.00	0.55	8.6	8.6	9.6	6.0	24.0	
IKLIN CA TAX-FREE INCOME	▲	13176.9	7	4.00	0.49	9.3	8.9	9.5	6.7	22.0	
IKLIN FEDERAL TAX-FREE INCOME	▲	5959.5	20	4.00	0.51	9.5	9.4	10.2	6.9	22.0	
IKLIN FL TAX-FREE INCOME	AVG	1100.2	26	4.00	0.53	8.7	9.1	10.3	6.5	22.0	
IKLIN HIGH-YIELD T/F INCOME	▲ ▲	2568.2	26	4.00	0.53	9.8	9.1	10.1	8.1	21.0	
IKLIN INSURED TAX-FREE INCOME	AVG	1432.5	34	4.00	0.53	9.2	9.0	10.0	6.3	20.0	
IKLIN MA INSURED T/F INCOME	AVG	261.2	25	4.00	0.65	8.8	8.4	9.5	6.1	21.0	
IKLIN MI INSURED T/F INCOME	AVG	822.8	28	4.00	0.58	9.3	8.8	9.7	6.1	21.0	
IKLIN MN INSURED T/F INCOME	AVG	418.7	21	4.00	0.63	8.4	8.3	9.5	6.2	20.0	
IKLIN MO TAX-FREE INCOME	▲	149.8	43	4.00	0.67	8.9	9.2	10.0	6.0	22.0	
IKLIN NJ TAX-FREE INCOME		397.9	22	4.00	0.59	9.1	9.3		6.0	22.0	
IKLIN NY TAX-FREE INCOME	▲ ▲	3950.5	15	4.00	0.51	11.0	9.7	10.2	6.6	22.0	
IKLIN OH INSURED TAX-FREE INCOME	▲	524.6	35	4.00	0.59	8.8	8.8	10.0	6.1	21.0	
IKLIN OR TAX-FREE INCOME	AVG	277.9	41	4.00	0.62	8.6	8.9	9.7	5.9	22.0	
IKLIN PA TAX-FREE INCOME	▲	473.2	25	4.00	0.58	9.7	8.9	10.1	6.3	22.0	
IKLIN VA TAX-FREE INCOME	AVG	195.3	34	4.00	0.64	9.2	9.2	9.9	6.0	22.0	
ERAL CA MUNICIPAL BOND		391.2	31	No load	0.37†	8.6	9.1		6.3	24.4	
ERAL MUNICIPAL BOND	▲ ▲	1101.3	61	No load	0.28†	9.8	10.7	11.2	6.6	23.1	
ERAL NY MUNICIPAL BOND	AVG	326.8	46	No load	0.55†	10.1	10.2	8.6	6.1	21.8	
N HANCOCK FREEDOM MANAGED T/E B (ss)	▲ ▲	237.7	10	4.00**	1.35†	8.4	8.8	10.0	5.7	24.0	
N HANCOCK TAX-EXEMPT INCOME	▲ ▲	481.7	14	4.50	1.27†	8.4	8.9	9.4	5.6	23.8	
'AIIAN TAX-FREE	AVG	562.9	23	4.00	0.70†	7.9	8.1	8.5	6.0	7.2	
ISMAN T/F INCOME FIDUCIARY		159.0	46	4.50	0.55†	7.5			4.8	7.6	
CALIFORNIA TAX-EXEMPT	▲ ▲	237.1	14	5.00	0.64†	8.3	8.3	9.1	5.9	25.3	
HIGH-YIELD TAX-EXEMPT	AVG	6116.3	13	5.00	0.62†	8.7	8.6	9.4	6.7	21.2	
NSURED TAX-EXEMPT	▲ ▲	378.8	52	5.00	0.67†	9.0	8.9	9.3	5.7	24.4	
MINNESOTA TAX-EXEMPT	AVG	351.5	28	5.00	0.66†	8.5	8.2	8.9	6.1	22.8	
'AX-EXEMPT BOND	▲ ▲ ▲	1258.4	1	5.00	0.64†	6.8	7.8	8.7	5.6	18.9	
PER MUNICIPAL BOND	▲ ▲	3315.6	28	4.50	0.48	7.7	9.0	9.4	6.6	16.0	
PER STATE T/F INCOME CA	▲ ▲ ▲	1214.2	14	4.50	0.64	8.1	8.7	9.0	5.8	17.0	
PER STATE T/F INCOME NEW YORK	AVG	301.1	23	4.50	0.66	9.3	9.5	9.6	5.8	18.0	
TONE TAX-EXEMPT	▲	742.4	14	4.00**	1.82†	7.4	7.8	8.9	5.9	21.3	

les redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not meaningful.
merly Freedom Managed T/E Fund (Class B).

See pages 101 for an explanation of BW Rating, Trend and other terms

MUTUAL FUND SCOREBOARD

BOND FUNDS

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREN
		ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%) 1 YR.	3 YRS.	5 YRS.	YIELD	MATURITY (YEARS)	5-YEAR ANALYS
KEYSTONE TAX-FREE	AVG	1447.4	27	4.00‡	1.17†	[illegible]	8.0	8.8	6.2	21.4	
LIBERTY FINANCIAL TAX-FREE BOND (tt)		183.5	66	4.50	0.55†	8.9	[illegible]		5.7	18.9	
LORD ABBETT CA TAX-FREE INCOME	AVG	251.8	46	4.75	0.67†	8.9	9.8	10.1	5.8	25.0	
LORD ABBETT TAX-FREE INCOME NATIONAL	AVG	573.1	30	4.75	0.83†	8.5	9.4	10.1	5.9	24.6	
LORD ABBETT TAX-FREE INCOME NY	AVG	321.6	28	4.75	0.81†	8.8	9.6	10.0	5.9	22.8	
MAINSTAY TAX-FREE BOND		336.9	60	5.00**	1.30†	8.4	8.0	8.1	5.8	23.2	
MERRILL LYNCH CA MUNI. BOND B		734.5	3	4.00**	1.13†	8.0	7.9	8.6	6.4	22.0	
MERRILL LYNCH FL MUNI. BOND B		168.3	57	4.00**	0.94†	7.7			6.6	23.8	
MERRILL LYNCH MUNI. INS. A		2084.2	1	4.00	0.44	9.0	9.4	9.7	6.2	22.0	
MERRILL LYNCH MUNI. LIMITED A		706.4	52	0.75	0.40	5.6	6.4	6.4	4.6	1.0	
MERRILL LYNCH MUNI. NATIONAL A (uu)	AVG	1268.9	1	4.00	0.55	9.4	9.2	9.7	6.6	23.0	
MERRILL LYNCH NY MUNI. BOND B		628.0	9	4.00**	1.16†	9.8	8.9	9.1	5.6	22.0	
METLIFE-STATE ST. TAX-EXEMPT		203.0	72	4.50	1.20†	9.3	8.5	9.8	5.4	21.0	
MFS CALIFORNIA MUNICIPAL (vv)		240.1	46	4.75	0.41†	9.0	8.9	9.5	6.1	21.4	
MFS HIGH-YIELD MUNICIPAL BOND (ww)		720.4	11	4.75‡	1.00	8.0	7.2	8.2	8.2	21.2	
MFS LIFETIME MUNICIPAL BOND (xx)		457.8	10	6.00**	2.02†	7.9	7.6	9.0	5.4	21.5	
MFS MASSACHUSETTS MUNICIPAL (yy)	AVG	265.5	12	4.75	1.07†	8.4	8.9	9.0	6.3	19.6	
MFS MUNICIPAL BOND (zz)		1956.6	11	4.75	0.58	9.4	9.5	10.0	6.0	19.4	
MFS NORTH CAROLINA MUNICIPAL (aaa)		386.4	25	4.75	1.07†	7.1	8.1	8.6	5.8	20.7	
MFS VIRGINIA MUNICIPAL (bbb)	AVG	388.7	19	4.75	1.08†	7.4	8.2	9.0	6.0	18.8	
MUTUAL OF OMAHA TAX-FREE INCOME		466.6	14	4.75	0.87†	8.7	9.5	10.2	5.7	20.8	
NATIONWIDE TAX-FREE INCOME (ccc)		183.9	44	5.00**	0.97†	9.5	8.8	9.3	5.4	23.0	
NEW YORK MUNI		196.0	7	No load	1.71†	12.3	8.6	9.4	5.4	19.5	
NUVEEN CA INSURED TAX-FREE VALUE (ddd)		151.6	61	4.75	0.72	9.3	9.1	9.8	5.6	24.0	
NUVEEN CA TAX-FREE VALUE (eee)	AVG	169.5	35	4.75	0.69	9.2	8.8	9.6	6.0	22.6	
NUVEEN INSURED MUNICIPAL BOND (fff)		497.1	80	4.75	0.70	9.6	9.7	10.3	5.7	23.7	
NUVEEN MUNICIPAL BOND		2216.4	26	4.75	0.59	8.4	8.7	9.5	5.9	20.4	
NUVEEN NY INSURED TAX-FREE VALUE (ggg)		283.1	89	4.75	0.68	9.7	9.4	9.8	5.6	24.2	
OPPENHEIMER CA TAX-EXEMPT		204.3	41	4.75	1.05†	8.2	8.5		5.8	24.0	
OPPENHEIMER NEW YORK TAX-EXEMPT		579.9	50	4.75	0.96†	9.6	9.0	8.9	5.6	22.1	
OPPENHEIMER TAX-FREE BOND	AVG	496.4	26	4.75	0.97†	9.7	9.2	9.3	6.2	24.9	
OVERLAND EXP. CA T/F BOND		375.4	13	4.50	0.56†	9.0	9.0		6.2	21.3	
PACIFIC HORIZON CA T/E BOND		170.2	23	4.50	0.81†	8.6	8.6	8.8	5.9	21.2	
PACIFICA CALIFORNIA TAX-FREE		193.1	22	4.50	0.80†	8.1			5.4	13.2	
PAINEWEBBER CA TAX-FREE INCOME A		239.7	2	4.00	0.95†	7.5	8.3	8.8	5.7	24.5	
PAINEWEBBER NATL. T/F INC. A		399.8	7	4.00	0.92†	8.0	8.5	9.1	6.0	25.0	
PARKSTONE MICHIGAN MUNI BOND		168.4	37	4.00	0.84	6.8			4.9	10.0	
PREMIER CALIFORNIA MUNI BOND	AVG	223.0	2	4.50	0.47†	8.3	9.1	10.2	6.2	24.7	
PREMIER MUNICIPAL BOND		465.9	31	4.50	0.54†	10.0	10.4	11.0	6.5	25.7	
PREMIER STATE MUNICIPAL BOND CT	AVG	332.2	30	4.50	0.52†	8.7	8.9	9.8	6.0	23.8	
PREMIER STATE MUNICIPAL BOND FL		274.6	19	4.50	0.52†	9.0	9.6	10.8	6.3	23.7	
PREMIER STATE MUNICIPAL BOND MD	AVG	306.1	31	4.50	0.53†	8.4	9.4	10.1	6.1	24.5	
PREMIER STATE MUNICIPAL BOND MI	AVG	169.9	21	4.50	0.53†	9.3	9.5	10.6	6.1	22.8	
PREMIER STATE MUNICIPAL BOND OH		275.1	19	4.50	0.52†	9.4	9.6	10.8	6.1	22.3	
PREMIER STATE MUNICIPAL BOND PA		195.0	31	4.50	0.56†	9.7	10.2	10.8	6.3	23.7	
T. ROWE PRICE MD TAX-FREE BOND	AVG	651.3	44	No load	0.62	8.5	8.6	8.9	5.7	17.7	
T. ROWE PRICE TAX-FREE HIGH-YIELD		761.5	22	No load	0.81	9.6	9.5	10.0	6.6	21.7	
T. ROWE PRICE TAX-FREE SHORT-INT.		424.6	38	No load	0.64	6.0	6.6	6.4	4.7	3.4	
T. ROWE PRICE TAX-FREE INCOME		1349.8	8	No load	0.61	9.4	9.1	8.9	6.0	19.9	
PRUDENTIAL CA MUNICIPAL CALIFORNIA B		184.0	7	5.00**	1.24†	8.9	8.3	8.6	6.1	22.7	
PRUDENTIAL MUNICIPAL HIGH-YIELD B		906.5	14	5.00**	1.05†	8.3	8.1	10.1	6.6	22.7	
PRUDENTIAL MUNICIPAL INSURED B		719.4	14	5.00**	1.02†	8.0	8.6	9.5	5.1	20.4	
PRUDENTIAL MUNICIPAL NEW JERSEY B		300.0	13	5.00**	0.88†	9.1	9.2		6.0	19.3	
PRUDENTIAL MUNICIPAL NEW YORK B		320.9	6	5.00**	1.14†	10.0	9.0	8.9	6.0	21.3	
PRUDENTIAL MUNICIPAL PA B		219.8	20	5.00**	1.21†	9.8	8.7	9.4	5.8	21.7	
PRUDENTIAL NATIONAL MUNICIPALS B		828.7	−5	5.00**	1.14†	9.0	9.1	9.0	5.7	18.7	
PUTNAM CA TAX EXEMPT INCOME A		2952.8	20	4.75	0.60	8.4	8.9	9.8	6.4	24.3	
PUTNAM FL TAX EXEMPT INCOME A		238.5	60	4.75	0.60	9.6			6.3	23.9	
PUTNAM MA TAX EXEMPT INCOME II		184.1	234	4.75	0.88	10.7	10.5		6.4	25.0	
PUTNAM MUNICIPAL INCOME A (hhh)		483.6	60	4.75	0.91	11.3	10.1		7.2	23.2	

(tt) Formerly Liberty Advantage T/F Bond Fund. (uu) Formerly Merrill Lynch Muni. Bond Fund H/Y A. (vv) Formerly MFS Managed CA Muni. Bond Trust. (ww) Formerly MFS Managed H/Y Muni. Bond Trust. (xx) Formerly MFS Lifetime Managed Muni. Bo Trust. (yy) Formerly MFS Mgd. Multi-State Muni Bond Tr. MA. (zz) Formerly MFS Mgd Muni. Bond Trust. (aaa) Formerly MFS Mgd. Multi-State Muni Bond Tr. NC. (bbb) Formerly MFS Mgd. Multi-State Muni Bond Tr. VA. (ccc) Formerly Nationwide T/F Fu (ddd) Formerly Nuveen CA T/F Fund Insured Bond Port. (eee) Formerly Nuveen CA T/F Fund Special Bond Port. (fff) Formerly Nuveen Ins. T/F Bond Fund Nat'l Port. (ggg) Formerly Nuveen Ins. T/F Bond Fund N. Y. Port.(hhh) Formerly Putnam T/F H/I Fu

See pages 101 for an explanation of BW Rating, Trend and other terms

MUTUAL FUND SCOREBOARD

	RATING	SIZE		FEES		PERFORMANCE			PORTFOLIO		TREND
		ASSETS $ MIL.	% CHG. 1991-92	SALES CHARGE (%)	EXPENSE RATIO (%)	TOTAL RET. (%) 1 YR.	3 YRS	5 YRS.	YIELD	MATURITY (YEARS)	5-YEAR ANALYSIS
IAM NJ TAX EXEMPT INCOME A		183.7	40	4.75	0.75	8.7			6.3	23.8	
IAM NY TAX EXEMPT INCOME A		1970.6	18	4.75	0.63	10.4	9.5	10.1	6.8	23.4	
IAM OH TAX EXEMPT INCOME II		158.1	398	4.75	0.90	9.4	9.0		6.2	22.8	
IAM TAX EXEMPT INCOME A		1942.3	24	4.75	0.66	10.5	9.3	10.4	6.6	23.9	
IAM TAX-FREE HIGH YIELD	▲ ▲ ▲	1157.1	43	5.00**	1.45†	10.6	8.6	9.1	6.7	24.1	
IAM TAX-FREE INSURED		497.1	26	5.00**	1.79†	7.2	7.8	8.9	5.1	24.0	
HESTER FUND MUNICIPALS	▲ ▲ ▲	997.0	101	4.00	0.80†	11.2	10.4	10.7	6.8	14.8	
HESTER LIMITED-TERM NY MUNI		150.1	705	2.00	0.78†	9.5			5.5	4.8	
CO MUNICIPAL BOND		512.2	21	No load	0.54	8.7	9.7	10.6	5.9	21.6	
DER CALIFORNIA TAX-FREE		282.3	18	No load	0.80	9.4	9.4	10.1	5.3	13.2	
DER HIGH-YIELD TAX-FREE	▲	203.1	28	No load	1.01	10.9	10.1	10.8	5.9	13.5	
DER MANAGED MUNICIPAL BONDS		827.9	4	No load	0.64	9.0	9.3	10.3	5.6	13.2	
DER MASSACHUSETTS TAX-FREE	▲	218.9	117	No load	0.48	10.8	9.8	10.3	6.2	12.5	
DER MEDIUM-TERM TAX-FREE	▲ ▲	649.5	143	No load	0.97	8.9	9.1	7.6	5.9	6.3	
DER NEW YORK TAX-FREE		184.7	16	No load	0.87	10.2	9.2	9.7	5.3	13.9	
MAN TAX-EXEMPT MICHIGAN		145.9	9	4.75	0.76†	9.3	9.0	10.0	5.7	20.3	
MAN TAX-EXEMPT MINNESOTA		146.4	−18	4.75	0.80†	7.7	7.3	8.8	6.2	18.8	
MAN TAX-EXEMPT OHIO		172.7	8	4.75	0.75†	8.4	8.8	9.7	5.8	18.4	
RSON CALIFORNIA MUNICIPALS A		399.6	10	4.50	0.65†	8.0	8.8	9.6	6.3	23.7	
RSON MANAGED MUNICIPALS A		1669.9	4	4.65*	0.59	9.4	9.4	10.0	6.4	24.1	
RSON NEW YORK MUNICIPALS A	▲	531.9	14	4.50	0.64†	9.3	9.1	9.7	6.5	23.1	
RSON TAX-EXEMPT INCOME B	▲	963.3	39	4.50**	1.45†	8.9	8.4	9.2	6.1	22.1	
RA CALIFORNIA MUNICIPAL (iii)		382.7	63	4.50	0.94†	9.2	8.6		5.9	25.0	
RA NATIONAL MUNICIPAL (iii)		303.8	135	4.50	0.64†	10.1			6.0	22.0	
NEW BEGINNING" T/F INCOME		278.2	108	No load	0.80	7.7	8.1		6.6	13.9	
H BARNEY MUNI BOND NATIONAL	▲	338.5	36	4.00	0.39	9.1	9.6	10.4	6.4	25.0	
H BARNEY MUNI CALIFORNIA	AVG	145.3	22	4.00	0.21	8.3	9.2	9.5	6.3	24.2	
NROE HIGH-YIELD MUNICIPALS	▲ ▲	366.6	−8	No load	0.69	5.2	7.5	9.5	6.3	22.8	
NROE INTERMEDIATE MUNICIPALS	AVG	201.6	35	No load	0.79	7.5	8.5	8.0	4.8	8.2	
NROE MANAGED MUNICIPALS	AVG	741.5	4	No load	0.64	8.1	9.0	9.7	5.7	18.9	
NG MUNICIPAL BOND	AVG	289.8	151	No load	0.10	12.2	10.0	8.9	6.3	19.9	
EXEMPT BOND FUND OF AMERICA		1022.0	33	4.75	0.71†	8.9	8.7	9.0	5.9	10.2	
EXEMPT FUND OF CALIFORNIA		168.4	39	4.75	0.74†	8.3	8.0	8.4	5.5	10.2	
FREE FUND OF COLORADO	▲	174.0	34	4.00	0.43	9.0	8.8	8.8	5.8	11.8	
FREE TRUST OF ARIZONA	AVG	277.6	39	4.00	0.57	9.5	9.0	9.3	6.0	17.2	
FREE TRUST OF OREGON	AVG	261.8	29	4.00	0.66	7.7	8.4	8.7	5.8	4.6	
RNBURG LIMITED-TERM MUNI NATL (kkk)	▲ ▲ ▲	719.2	87	2.75	1.04†	7.8	7.6	7.7	5.6	4.9	
TAX-EXEMPT INCOME (lll)		183.3	12	4.50	0.95†	8.9	8.6	9.5	6.0	22.0	
USAMERICA CA TAX-FREE INCOME A		216.3	32	4.75	0.40†	9.1	9.1		6.3	24.8	
ED MUNICIPAL BOND		913.8	14	4.25	0.57	9.5	9.5	10.9	5.7	20.9	
ED MUNICIPAL HIGH-INCOME	▲ ▲ ▲	269.2	15	4.25	0.72	10.1	9.7	9.9	6.8	22.1	
A T/E INTERMEDIATE-TERM	▲ ▲	1205.8	47	No load	0.42	8.5	8.8	8.9	5.9	8.6	
A TAX-EXEMPT CALIFORNIA BOND		353.0	20	No load	0.46	8.3	9.1		6.0	23.8	
A TAX-EXEMPT LONG-TERM (mmm)	▲	1784.3	9	No load	0.39	8.6	9.2	10.1	6.4	21.2	
A TAX-EXEMPT SHORT-TERM	▲ ▲ ▲	840.2	39	No load	0.43	6.0	6.5	6.6	4.9	2.8	
A TAX-EXEMPT VIRGINIA BOND		182.9	52	No load	0.50	8.5			5.9	23.9	
MASTER TAX-EXEMPT INTERM.-TERM	AVG	251.0	40	4.50	0.64	8.5	8.4	8.2	4.6	11.3	
JE LINE TAX-EXEMPT HIGH-YIELD	▲	288.7	−4	No load	0.60	7.9	8.9	9.2	5.9	18.6	
KAMPEN MERRITT INS. T/F INCOME		987.4	19	4.90	0.81†	9.5	9.1	9.6	6.0	21.0	
KAMPEN MERRITT MUNI INC		459.7	57	4.90	0.84†	9.7			6.8	25.5	
KAMPEN MERRITT PA T/F INCOME	▲ ▲ ▲	153.4	50	4.90	0.70†	10.1	9.7	10.9	6.4	22.9	
KAMPEN MERRITTT/F HIGH-INCOME		564.4	−10	4.90	1.01†	0.1	3.9	6.4	8.1	21.5	
GUARD CA T/F INS. LONG-TERM		852.7	32	No load	0.25	9.4	9.1	10.1	5.8	14.7	
GUARD MUNICIPAL HIGH-YIELD	AVG	1609.4	20	No load	0.23	9.9	10.1	11.0	6.5	16.9	
GUARD MUNI. INSURED LONG-TERM		1997.6	17	No load	0.23	9.2	9.5	10.4	6.1	17.1	
GUARD MUNI. INTERMEDIATE-TERM	▲	3491.3	42	No load	0.23	8.9	9.4	9.6	5.6	9.5	
GUARD MUNICIPAL LIMITED-TERM	▲ ▲ ▲	1084.0	98	No load	0.23	6.4	7.6	7.5	4.8	3.0	
GUARD MUNICIPAL LONG-TERM		1012.7	14	No load	0.23	9.3	9.8	10.7	6.2	14.8	
GUARD MUNICIPAL SHORT-TERM	▲ ▲ ▲	1109.5	27	No load	0.23	4.7	6.2	6.2	4.3	1.3	
GUARD NJ T/F INS. LONG		588.7	30	No load	0.26	9.4	9.4		5.8	12.5	

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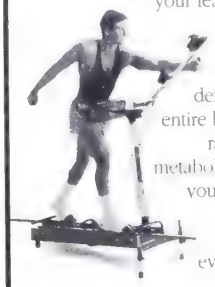

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VANGUARD NY INSURED TAX-FREE		594.4	38	No load	0.25	9.7	9.6	10.2	6.0	13.4	
VANGUARD PA T/F INS. LONG-TERM		1158.8	33	No load	0.26	10.2	9.7	10.4	6.0	12.6	
VOYAGEUR COLORADO TAX-FREE		202.2	93	3.90	0.82	9.3	9.0	9.6	6.0	12.2	
VOYAGEUR MN INSURED		162.7	138	4.75	0.39†	8.4	8.8	9.2	6.0	21.0	
VOYAGEUR MN TAX-FREE		331.3	32	4.75	0.83†	7.5	8.4	8.9	6.1	17.8	
INTERNATIONAL											
ALLIANCE MULTI-MARKET STRATEGY B		615.1	−29	3.00**	3.37†	−3.2			8.1	1.7	
ALLIANCE SHORT-TERM MULTI-MARKET B		2653.8	−33	3.00**	1.84†	−0.4			6.7	1.4	
ALLIANCE WORLD INCOME		257.4	−70	No load	1.66†	1.7			4.4	0.4	
BENHAM EUROPEAN GOVERNMENT BOND		337.2	NM	No load	NA	8.2§				7.0	
BLANCHARD SHORT-TERM GLOBAL INCOME		980.1	−16	No load	1.32†	3.6			7.5	1.5	
CAPITAL WORLD BOND		255.0	171	4.75	1.38†	0.8	9.1	6.9	6.2	9.6	
DEAN WITTER WORLD WIDE INCOME		304.4	−26	5.00**	1.87†	3.1	6.7		6.9	7.8	
EATON VANCE SHORT-TERM GLOBAL INCOME		475.6	−28	3.00**	2.00†	−0.8			7.0	2.2	
FIDELITY GLOBAL BOND		274.9	49	No load	1.23	2.9	9.2	7.8	8.0	7.5	
FIDELITY SHORT-TERM WORLD INCOME		459.0	121	No load	1.09	5.4			7.9	2.4	
FRANKLIN GLOB. OPPTY. INCOME		151.3	117	4.00	0.71	−0.4	7.0		8.8	8.3	
FT INTERNATIONAL INCOME		89.6	96	4.50	0.96†	−1.4			7.2	9.3	
G.T. GLOBAL GOVERNMENT INCOME A		605.6	40	4.75	1.54†	1.9	8.0		9.7	7.3	
HANCOCK FREEDOM GLOBAL INCOME B (nnn)		192.1	−1	4.00**	1.91†	−2.9	6.6	8.2	8.6	5.7	
HANCOCK FREEDOM S/T WORLD INC. B (ooo)		219.0	−11	3.00**	1.96†	2.5			7.5	1.5	
IDS GLOBAL BOND		103.6	83	5.00	1.37†	8.1	12.1		8.0	9.9	
KEMPER INVESTMENT SHORT-TERM GLOBAL		204.4	0	3.00**	1.84†	−8.7			9.2	0.6	
KEMPER SHORT-TERM GLOBAL INCOME		213.9	−28	3.50	0.99	−8.5			9.2	0.6	
LORD ABBETT GLOBAL INCOME		148.1	47	4.75	1.30†	3.5	9.8		9.6	8.6	
MERRILL LYNCH GLOBAL BOND B		637.8	68	4.00**	1.65†	6.9	12.3	9.4	6.9	13.8	
MERRILL LYNCH SHORT-TERM GLOBAL B		2687.8	−55	3.00**	1.49†	−3.3			8.0	1.9	
MERRILL LYNCH WORLD INCOME B		1582.3	4176	4.00**	1.63†	4.4			9.7	5.0	
MFS WORLDWIDE GOVERNMENTS (ppp)		316.2	17	4.75	1.54†	1.3	10.7	8.7	6.5	7.0	
PAINEWEBBER GLOBAL INCOME B		1449.8	−13	5.00**	2.01†	0.4	9.4	9.2	4.9	7.8	
PAINEWEBBER SHORT-TERM GLOBAL INC. B		273.6	−30	3.00**	1.89†	2.7			2.5		
T. ROWE PRICE INTERNATIONAL BOND		516.3	25	No load	1.10	2.9	12.0	6.2	8.5	5.2	
PRUDENTIAL GLOBAL ASSETS A		138.0	845	0.99	1.29†	0.9			6.3		
PRUDENTIAL INTERM. GLOBAL INC. A		385.1	27	No load	1.64	3.2	5.8		8.6		
PRUDENTIAL S/T GLOBAL INCOME B		450.5	−42	3.00**	1.86†	−1.5			7.0		
PUTNAM GLOBAL GOVTL. INCOME	AVG	418.3	11	4.75	1.48†	4.4	11.8	11.6	10.9	7.5	
SCUDDER INTERNATIONAL BOND		741.9	150	No load	1.25	7.6	16.8		7.9	10.2	
SCUDDER SHORT-TERM GLOBAL INCOME		1109.2	219	No load	1.00	5.5			9.0	3.9	
SHEARSON SHORT-TERM WORLD INC. A		121.8	−67	3.00	1.26†	−2.0			6.7	0.9	
SHEARSON WORLDWIDE PRIME ASSETS A		193.7	−67	No load	1.80†	−1.7			4.9	0.2	
SMITH BARNEY GLOBAL GOVT. BOND		107.5	9	4.00	1.42†	−0.2			8.2		
TEMPLETON INCOME		180.6	25	4.50	0.98	3.1	9.2	8.6	8.2	9.0	
VAN ECK WORLD INCOME		291.0	97	4.75	1.39†	−3.5	10.4	10.8	8.9	3.7	
VAN KAMPEN MERRITT S/T GLOBAL INC. B		402.7	496	3.00**	2.08†	4.5			8.4	1.7	
CONVERTIBLE											
AMERICAN CAPITAL HARBOR A		393.8	2	5.75	0.91†	9.7	10.1	13.4	5.4	12.1	
DEAN WITTER CONVERTIBLE		219.7	−24	5.00**	1.96†	13.6	8.5	9.1	7.8	15.3	
DREYFUS CONVERTIBLE SECURITIES		219.0	−9	No load	1.07	3.8	4.8	10.2	3.2	11.6	
FIDELITY CONVERTIBLE SECURITIES		480.4	260	No load	1.02	22.0	18.0	19.2	4.2	14.3	
GABELLI CONVERTIBLE SECURITIES		92.2	0	4.50	1.55	13.0	10.5		5.6	11.2	
LORD ABBETT BOND-DEBENTURE	AVG	734.0	24	4.75	0.85†	16.0	14.0	12.1	10.2	8.5	
PHOENIX CONVERTIBLE		209.0	21	4.75	1.26†	12.9	9.9	10.7	3.9	10.7	
PRUDENTIAL INCOMEVERTIBLE B (qqq)		342.7	−15	5.00**	2.11†	7.4	6.5	10.4	5.0	9.5	
PUTNAM CONVERTIBLE INCOME-GROWTH		628.8	11	5.75	1.11†	21.2	12.2	13.0	5.3	14.5	
SBSF CONVERTIBLE SECURITIES		49.3	66	No load	1.25	11.3	10.5		6.1	14.3	
SHEARSON CONVERTIBLE B		63.2	3	5.00**	1.88†	13.5	9.0	10.3	4.6	8 3	
VALUE LINE CONVERTIBLE		41.1	8	No load	1.14	13.8	12.2	12.6	4.8	11.2	
VANGUARD CONVERTIBLE SECURITIES		134.3	122	No load	0.86	19.0	13.6	14.5	4.5	11.6	

*Includes redemption fee. **Includes deferred sales charge. †12(b)-1 plan in effect. ‡Not currently accepting new accounts or deposits. §New fund, less than 12 months' total return. NA = Not available. NM = Not meaning
(nnn) Formerly Freedom Global Income Fund (Class B). (ooo) Formerly Freedom S/T World Income Fund (Class B). (ppp) Formerly MFS Worldwide Governments Trust. (qqq) Formerly Prudential IncomeVertible Plus Fund

See pages 101 for an explanation of BW Rating, Trend and other terms

ASIA'S TOP EXECUTIVES SEE NEXT BOOM MARKETS CLOSER TO HOME

For the past 40 years, the engines of Asian growth have been far from Asia. The greatness that is Asian business today has been built almost exclusively on export. But now, as Europe, the U.S., and even Japan lie in the grip of a stubborn recession, Asian enterprise is rapidly realizing that it needs a new strategy. • Where will Asia find its engine of growth? That was the central question at The 1993 *Business Week* Asia Symposium of Chief Executives. One hundred fifty of East Asia's leading corporate figures gathered December 2-4 under the *Business Week* banner in Hong Kong.

"WE MUST ASK OURSELVES HOW WE CAN ACCOMMODATE CHANGE. ARE WE FLEXIBLE ENOUGH?"

YOTARO KOBAYASHI, CHAIRMAN AND CEO, FUJI-XEROX CO., LTD.

ASIA AS A FORCE FOR CHANGE

"Global markets are changing, and corporate strategies must change with them," says **Peter Perkins,** Asia director for DRI/McGraw-Hill. Asian business knows that its U.S. and European markets are in decline. The question Asia faces is whether Asia's own markets can develop fast enough to replace the Americans' and keep Asian growth humming.

"Asia will be the next big market," says **Gordon Wu**, managing director of Hong Kong's giant Hopewell Holdings. And **Paul Cheng**, chairman of Inchcape Pacific Limited, agrees: "This region is the world's fastest-growing consumer market, and it has enormous pent-up demand. Hong Kong companies are aggressively creating products specifically for Asians, now. Everything from fashion cosmetics to frozen foods. And they are selling them easily."

Nelson An-Ping Chang, president of Taiwan's giant Chia Hsin Cement and vice-chairman of China Management Systems, sees a monentous and global social significance in the change sweeping Asia: "Asymmetrical growth and development of the world in the 20th century will be corrected in the 21st. The key business issue will no longer be how to *sustain growth*, but how to *improve quality of life*, and on a global scale. We members of the Pacific Rim business community have the most opportunity to contribute to change for the welfare of all."

The overall message of the *Business Week* Asia Symposium is that the developing domestic economies of Asia hold teriffic promise not only as consumer and commercial markets, but also as agents of global change — a force that will change the human experience.

CHINA'S TRANSFORMATION

Key to the region's potential are the changes in China, which is leaving its past behind and choosing traditional forms of private foreign investment to lift it from economic somnolence into a new role: economic powerhouse of the 21st century. "China is a giant that has started to work along the principles of economics rather than the dictums of ideology," Hopewell's Wu observes, "and there is no going b

"In the broadest sense, China w more important than Japan," says **Yo Kobayashi**, the chief executive of F Xerox Corporation. "I do not thin you can overestimate the potential o China as a market," says **Christoph Ho**, CEO of Grande Holdings. "Th only question is the time frame."

Kazuo Wada, chairman of Yao International Company, suggests the time frame will be relatively short. Focusing on retailing and distributio Asia, Yaohan has set up a joint vent in China to open as many as 1,000 department stores. It's first, destined be China's biggest, is currently unde development in Shanghai.

Hong Kong Governor **Chris Patten** provided perspective: "Acros the border in China, one of the mos profound economic revolutions the world has ever seen is underway." **Simon Murray**, managing director Hong Kong's oldest and largest com Hutchison Whampoa, adds that "in years time, China's economy will be eight times bigger than it was in 197 when the process of economic refor began." Murray's company has alrea committed in excess of $1 billion to China investment.

Several of the executives at the *Business Week* symposium took advar tage of the proximity of Hong Kong China and visited the Pearl River de over the border. They saw a region described as "one vast construction s

SHANGHAI MOVES TOWARD CENTER STAGE

Equally important, other parts China are also opening. "Th focus of China's economic reform has already shifted to the Yan River basin and Shanghai, the largest city in the world," notes Shanghai's Mayor, **Huang Ju.** The results of Shanghai's opening are coming very rapidly: Shanghai's real GDP leaped 14.5% in the first 10 months of 1992

Little wonder. With its heavy investment in infrastructural improvements, its streamlined investment approval process, its adoption of inter tional accounting standards, its shift toward contract (as opposed to lifetim employment arrangements, the commercialization of its housing, the priv

ı of its government-owned enter-
;, and its overt commitment to the
on of a full-fledged market econo-
hanghai is doing all it possibly can
sition itself attractively for foreign
:ment.

)ramatic change in economic direc-
s not unique to China. **F.C.**
i, managing director of Tata Sons,
that India has turned its back once
or all on the subsidies that were
rupting the country and begun
ng toward a more market-oriented
omy. **Prem Pandhi**, former presi-
of Dunlop India and director-
itus of India's International
igement Institute, suggests this will
e business to bring into play India's
antial infrastructure, and its impres-
ıuman resources, particularly abun-
at the technological, managerial,
upervisory levels.

NGING STRATEGIES

hough their world is changing,
"most Asian companies have no
long-term strategy at all," says
de's Ho. "Their plan is to stay alive
business cycle to business cycle."
Xerox' Yotaro Kobayashi, one of
; most renowned senior executives
eader of a company that is constant-
lefining itself to meet changing
itions, emphasizes that "flexibility is
tial. We must ask ourselves how we
.ccommodate change. Are we flexi-
nough to be able to restructure as
dly and as drastically as changing
:ets demand? Have we understood
;s as well as we think? Are we
ıgeous enough to champion change?"
Kobayashi calls attention to a recent
ıese survey of senior and middle
ıgers in which both groups rank
l responsibility, creativity, humane-
and an international outlook ahead
ofitability and growth as corporate
:tives for the current decade. "The
le pursuit of growth for growth's
is wrong," says Kobayashi. "Com-
:s have to search for reasons to grow."
The CEOs at the *Business Week* Asia
posium met one of the world's lead-
:xamples of corporate social respon-
ty in the person of **Louis Clinton**,
dent and CEO of Freeport-
MoRan Pacific, a company that
ls schools, clinics — even whole
towns — in the remote areas of Indonesia where it works. It does so under voluntary arrangements with the Indonesian government. Although its investment in social initiatives is already immense, Clinton plans to continue such interventions because they pay for themselves in many ways. "Though it can be difficult to quantify things like excellent government and community relations, their absence can create untenable situations. Social investments forestall problems and create an improved environment. That is worth millions."

TECHNOLOGY AND STRATEGY

Part of the change in today's business environment is technological. New technologies are creating new competitive possibilities. Certain companies take advantage of these potentials first, others later. Eventually, all companies use them. But those who use them first realize the greatest benefits — albeit at the greatest risk.

James Thomas, vice-president, general manager, South Asia/Pacific, Sprint International, points out that "Fiber-Optic technology is providing enormous increases in communications capacity. Other parallel technological developments make it possible to offer important new telecommunications services.

At the same time, governments recognize the importance of telecommunications in the growth of their economies, and the benefits that competition provides.

Global partnerships are forming, uniting powerful global organizations and local companies. New local communications companies are emerging as governments move to establish competition, and these companies must provide new and price-competitive services in order to develop market share.

The Asia/Pacific region is well placed to benefit from this new competition and so achieve the infrastructural development needed to maintain and develop the phenomenal growth which is the envy of us all.

"THE FOCUS OF CHINA'S ECONOMIC REFORM HAS ALREADY SHIFTED TO THE YANGTZE RIVER BASIN."

HUANG JU, MAYOR OF SHANGHAI

"COMMUNICATIONS TECHNOLOGY IS CHANGING THE WAY SENIOR MANAGEMENT MANAGES AND DECIDES. THE RESULT IS FASTER, BETTER DECISIONS."

PAOLO L. GUIDI, PRESIDENT, SPRINT INTERNATIONAL

CAPITAL CRUNCH GROWS LOUDER

In mapping strategies for the years ahead, Asian entrepreneurs in common acknowledge capital availability as the issue of greatest concern. *Business Week* Tokyo Bureau Chief **Robert Neff** notes that Japanese, U.S., Taiwanese, and Korean capital flows, into the ASEAN countries, have declined in recent years. Part of the problem is China's attractiveness. But the serious bad debt problem in Japan is also a deterrent. "The days of cheap Japanese money are over," says **R. Taggart Murphy**, the prominent Japan-based merger and investment adviser. Neff agrees: "Every borrower needs to make a strong case to get money out of a Japanese lender today."

But conditions are not seen as permanently tight. Deutsche Bank Capital Markets (Asia) Senior Economist **Kenneth S. Courtis** reasons that Japan's policy-induced purge of the "bubble economy" will prepare the Japanese economy to move ahead with a powerful kick in the middle and late parts of the decade. Observing that the current account deficit of the G7 nations (excluding Japan) is roughly $120 billion, while the seven major East Asian economies had a combined surplus of $125 billion, Courtis says, "The shift in the global balance of economic power is accelerating in favor of Asia." With 41% of global bank reserves now in the seven leading East Asian economies, compared with 17% in 1980, he says, "Asian financial institutions will have privileged access to the shrinking global pool of capital."

Warning against the error of excessive optimism, **Marc Faber**, managing director of Marc Faber Limited of Hong Kong, predicts slower growth in Asia for the next two years as global trends catch up with the region. Labeled "Dr. Doom" in Hong Kong for successfully predicting the 1987 crash, Faber predicts sluggish equity markets worldwide, and weak world consumption undermining export-led growth. Where other speakers were generally optimistic, Faber foresees recession, as slower export growth brings slower growth in investment flows.

PROTECTIONISM: THE BIG THREAT

Though the U.S. market may no longer be the engine driving Asian growth, Asian CEOs nonetheless regard U.S. trade policy w caution and concern. Hong Kong Governor Patten summed up their cor cern, saying, "The clouds on the Asiar horizon are GATT and U.S. 'most-favored-nation' status for China." The latter is of particular importance to Hong Kong. Hutchison Whampoa's Murray notes that 90% of the factories in China's Guangdong province are financed from Hong Kong.

Park Seh-Jik, national assemblyman in Korea and former mayor of Seoul, was emphatic: "At this juncture successful conclusion of the Uruguay Round which has been stalled for over five years is essential to the prosperity o the world community." Failure will pu the smaller economies of the region at disadvantage and worsen the general uncertainty. He urges the U.S. to coop erate with his and other countries to build a framework for multilateral trad consultation in the Asia-Pacific region.

Former Australian Prime Minister **Robert Hawke** widened the argumer noting that the U.S. had "won the grea bet of the 21st century — that in the absence of war, the free market would beat the totalitarian communist economies." Now, victory in hand, Hawke worries that the U.S. may aban don free trade and throw away the frui of their success. "The U.S. is at a cross roads," Hawke says. "If it goes wrong, will put world prosperity in danger."

HOPE, ASIA

The volatility of international business economics was apparer to all during the *Business Week* Asia Roundtable: The Hong Kong sto market crashed nearly 20% the week o the conference. Hong Kong's CEOs, while not sanguine about the market's collapse, took it with a dollop of soy: Every Asia-active executive knows the world is changing, and that there will b momentary setbacks.

But the leadership of Asian enterprise also knows that the world needs Asia to be the engine of world growth for the decades ahead. That knowledg yields a certain clarity of view — and a unassailable Asian confidence.

Reported by Christopher S. Gray, Ph.D., in Hong Ko

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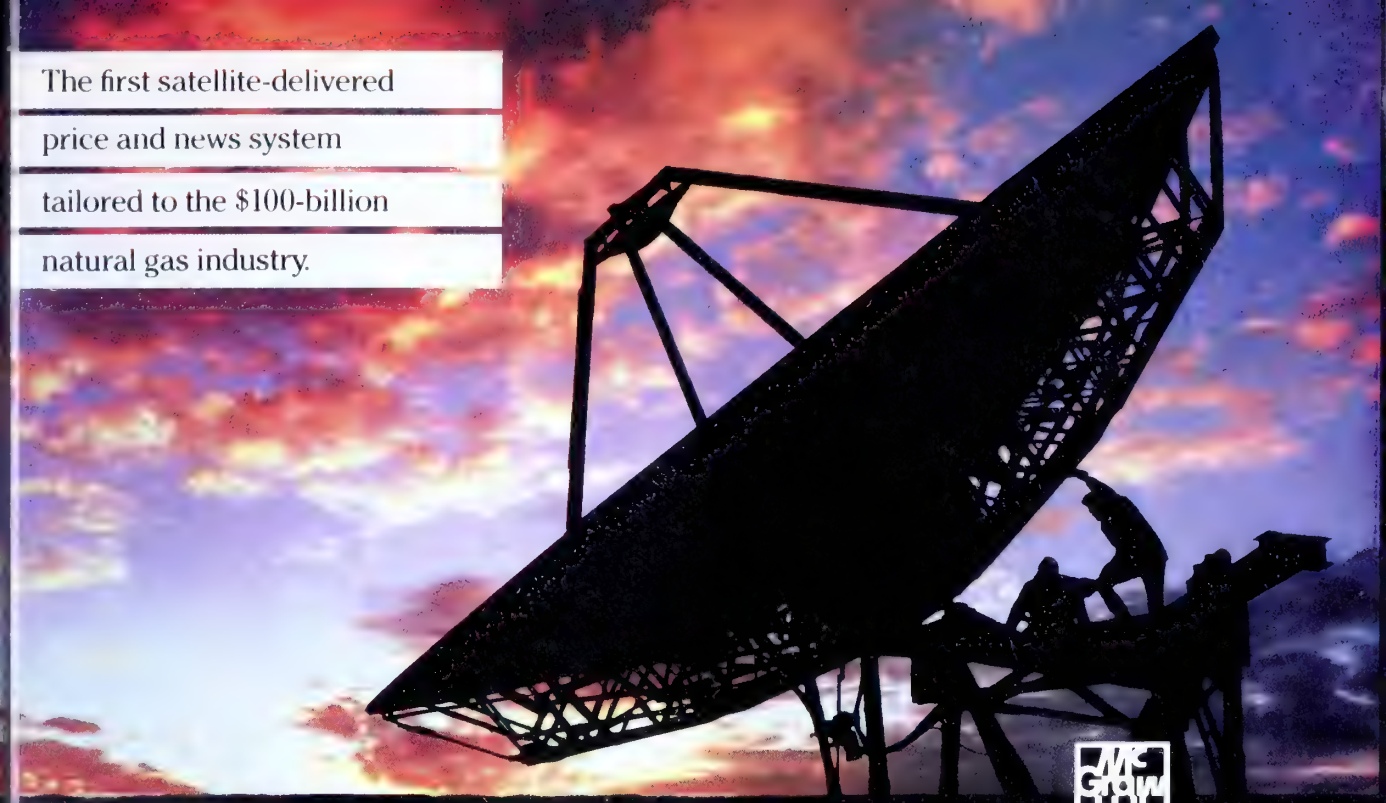

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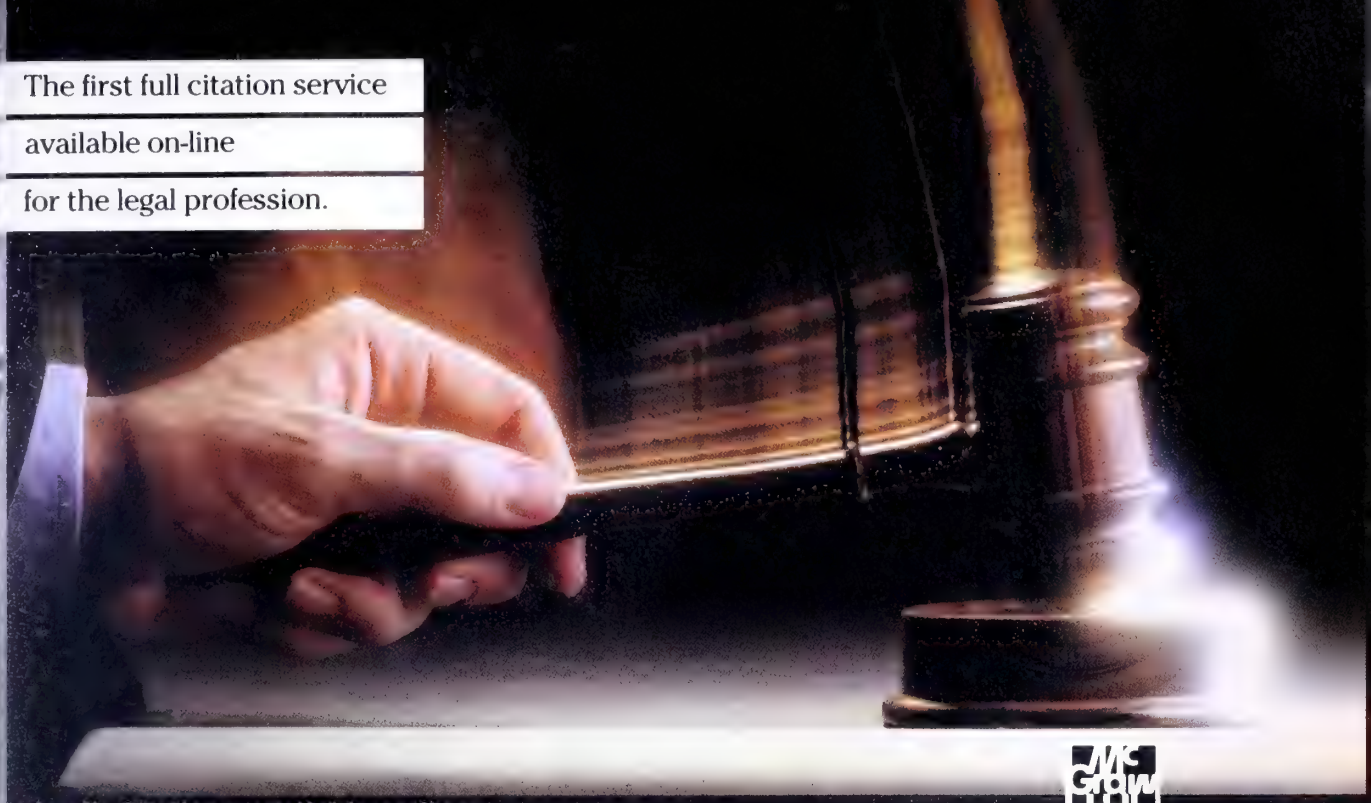
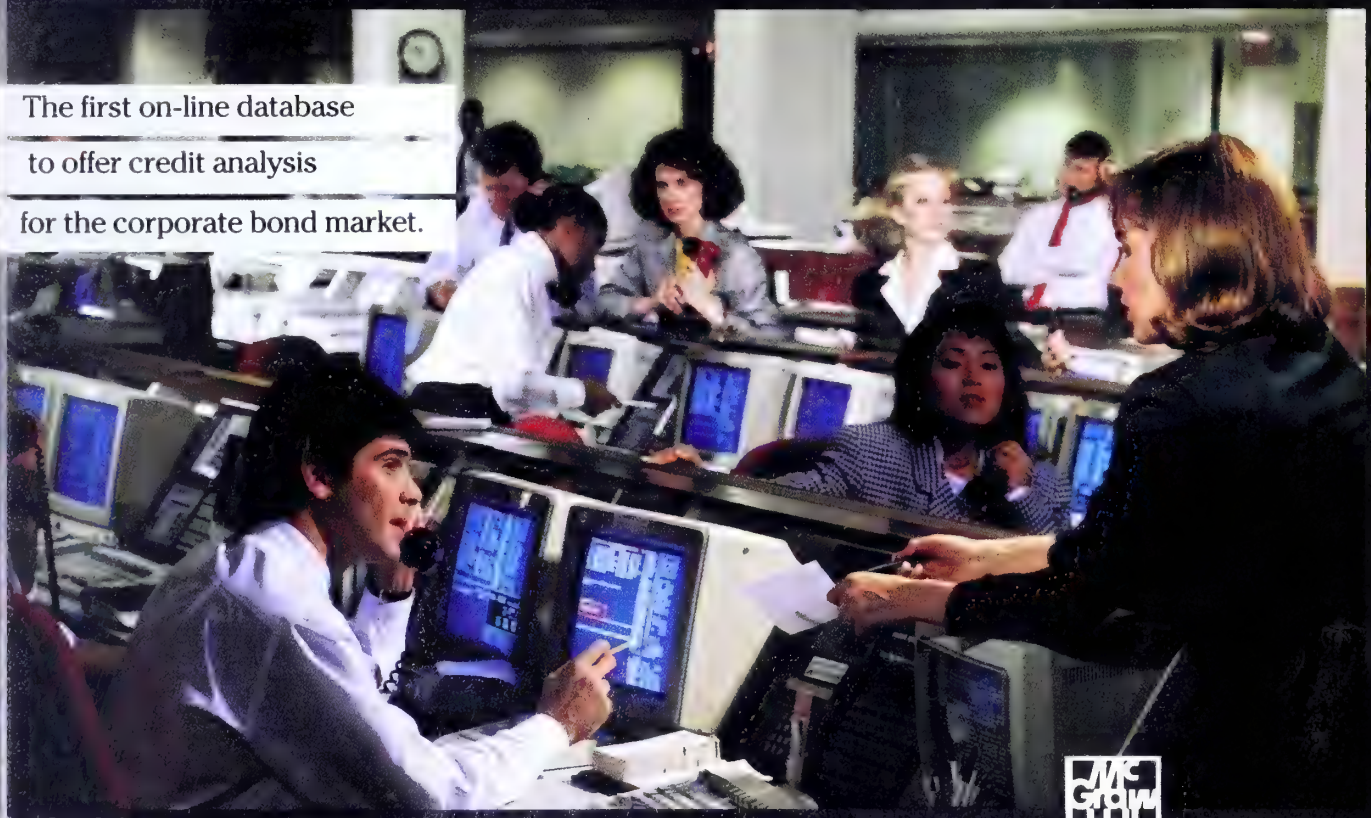


ıepard's Citations, available on-line

The first on-line database
to offer credit analysis
for the corporate bond market.



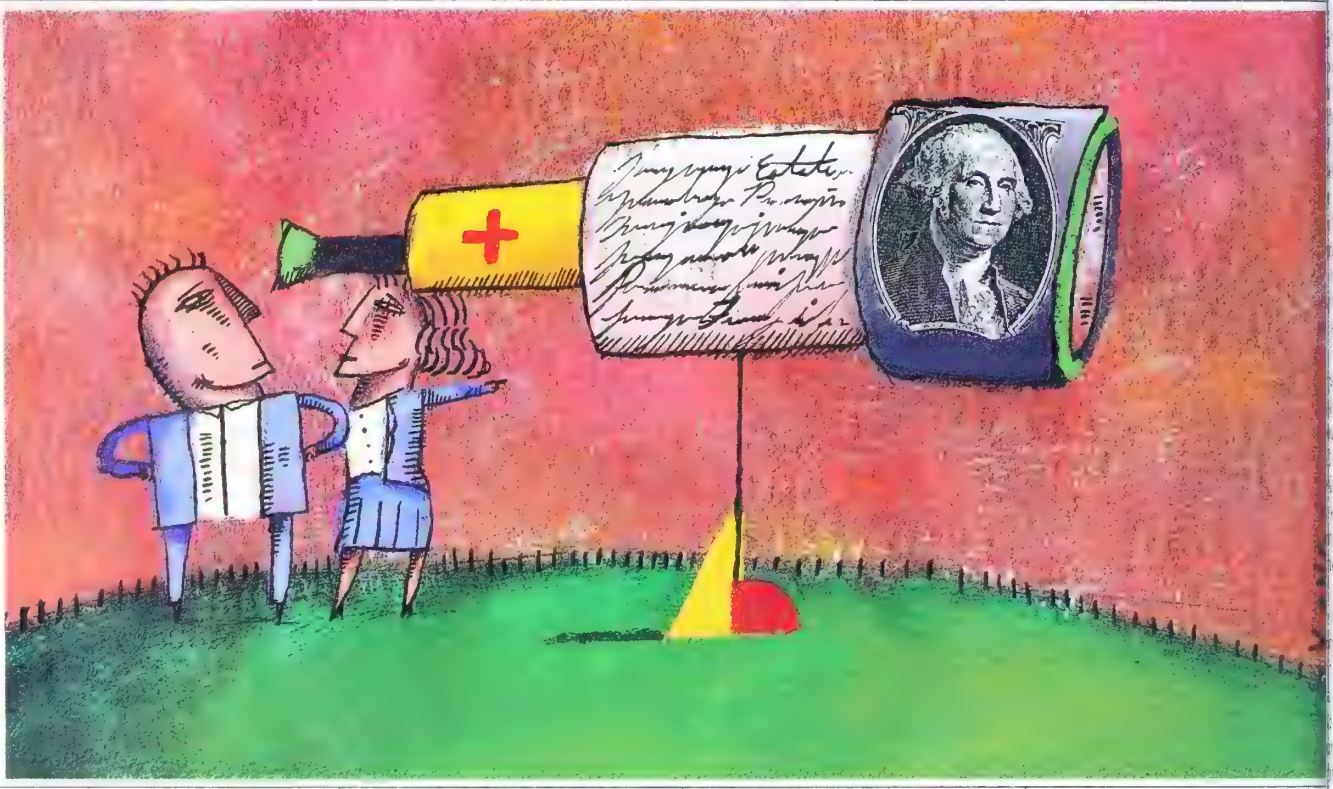
andard & Poor's CreditWire

At McGraw-Hill, being first
is almost second nature.

EDITED BY AMY DUNKIN

Insurance

WILL YOU HAVE ENOUGH TO RETIRE IN STYLE?



Let's say you're a corporate executive or business owner, hitting your 50s and reaching your peak earning years. You're putting a good chunk of the income you take in toward your retirement, and you've started dreaming about a condo on the golf course in Palm Springs, Calif. Then, you take a deep breath.

What if your pension isn't big enough to provide the standard of living that you envision? What if your company goes bankrupt or falls victim to a takeover? Will you be able to collect the deferred compensation that you have been salting away so carefully? Will your estate have enough liquid assets on hand to pay state and federal taxes? Or will the kids have to sell the family business or your prized coin collection to satisfy the Internal Revenue Service?

There's no guarantee you'll avoid every pitfall in this financial mine field. But insurers are coming up with an array of strategies that can help insure or supplement your income, pay nursing home costs, and even let you build cash for estate taxes at a fraction of what traditional life insurance programs would cost.

TOO LATE. When starting to put together your insurance portfolio, make sure your disability-income protection is up to snuff. Unless you've read the fine print in your employee-benefits booklet, you may find out only after the fact that your company's group disability program won't replace all your earnings if illness or injury puts you on the sidelines for an extended stretch. Many execs earning $200,000 a year or more may find themselves facing such limits, says Milwaukee broker Raymond Laub.

Supplementing a group disability program can easily run into big bucks. Fortunately, there are simple ways to cut costs. By agreeing to a waiting period of a year before the coverage kicks in, executives in their mid-40s can reduce their annual premiu by 15%. If executives pay t premiums themselves, sa New York accountant Stu Kessler, anything they rece will be exempt from fede and state income taxes.

FRESH OPTIONS CAN SPICE UP WHAT YOU'VE GOT SALTED AWAY

You'll also need to get a up on protecting yours against the fearsome costs long-term nursing-home residential health care. W the room and board at so first-class nursing homes n running more than $70,00 year, it won't take a long st to put a major dent in yo savings.

Kessler suggests purch ing long-term-care covera no later than age 55 to tain the lower premiums t are available for younger icyholders. Indeed, the pre um on a policy guarantee $150 in daily nursing-ho

efits totals $800 for a 55-
-old male but spirals to
00 by the time he reaches
Brokers and financial plan-
say that even executives
ıeir 40s should start shop-
now. Several insurers,
ıding Continental Casual-
ɔffer policies that supply
with disability income
ection now, and then con-
to long-term-care cover-
once you retire.

ou should also think
ıt supplementing
retirement income.
eral law limits to
,641 the amount that
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. That has driven
y six-figure manag-
to augment tradition-
ension plans provid-
set amounts based on
length of their em-
ment. One popular
tegy: setting up indi-
al plans outside fed-
limits.

nown as supplemen-
executive retirement
s (SERPs), they work
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get more favorable
treatment. They are
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of their compensa-
packages. Take a 55-
-old exec who plans
etire at age 65. He
ts to receive $150,000
ar in SERP income on
of the money that
get from his existing
ion, a 401(k) plan, and So-
Security. The executive-
lucts unit of American
rnational Group (AIG)
ges $263,000 in premiums
rovide the annual pay-
ts out to the estimated
expectancy of 82.

EAD IT OUT. But even a
erous pension package
n't ensure that you'll col-
all of the deferred com-
ation you have built up
the years. Many highly
managers and traders
their employers spread
heir annual compensation
several years to ease
tax burden. Employers
erally pay interest on
t they owe, typically at
ate on high-quality corpo-
bonds plus a few percent-
age points. But amid the rising tide of restructurings, mergers, and bankruptcies, some corporations may be unable or unwilling to fork over the sums they owe.

If you're worried about this, you might consider insuring your deferred-compensation balances. AIG's National Union Fire Insurance, for example, sells policies to managers at corporations rated A or better by Standard & Poor's. A five-year policy covering $10 million in deferred salary will cost about $250,000—in advance. For tax reasons, these policies are sold to individuals, not corporations. Says National Union President William Smith: "If your company goes down, we pay."

Once you have nailed down your disability and retirement insurance needs, you should turn immediately to the next subject, which is protecting your estate. Your husband or wife is entitled to inherit your estate largely free of federal taxes. But estate taxes do kick in after the spouse dies and the estate passes to children or grandchildren. Unless you have made provisions to have cash on hand, you may find your heirs pressed into a forced sale of a family business, art, or other assets just to pay the tax bill.

That's where second-to-die life insurance comes in. Also known as joint-survivorship insurance, second-to-die policies typically insure a husband and wife together, and generally they don't pay off until both have died. The average life expectancy of two individuals is longer than that for one alone, so the insurers regard second-to-die coverage as a less risky proposition. And that means lower premiums. Equitable Life Assurance Society charges $15,300 a year for a $1 million whole-life policy on a 55-year-old couple. But insuring each spouse individually would cost nearly $29,000. "This is a very hot product," says broker Laub. "A few years ago, only two or three companies were making it available. Now, we're starting to see more and more."

Equitable has begun offering second-to-die policies that let you bet on stocks or other markets to build up cash. As is the case with traditional whole-life policies, insurance companies usually invest a large portion of their joint-survivorship premiums in long-term bonds and other conservative assets. But Equitable's Survivorship 2000 policy lets you choose among 11 special funds that invest in everything from Treasuries to growth stocks. Over the past five years, Equitable's Aggressive Stock fund scored a 23.2% annual total return, against 8.9% for its whole-life investment account.

KIDS' POLICY. For couples planning to leave the bulk of their estates to their descendants, Michael Chasnoff, a Cincinnati financial counselor and insurance expert, suggests buying second-to-die coverage through an irrevocable insurance trust overseen by a lawyer or bank. When a trust owns such a policy, any proceeds remain outside your or your spouse's estate. That makes it easy for a trustee to settle debts, pay taxes, and distribute anything left over to your heirs.

Instead of giving each of your descendants tax-free gifts of up to $10,000 a year, Chasnoff adds, make them the insurance trust's beneficiaries and give the money directly to the trustee to pay premiums. The cash value of the insurance builds up free of taxes. So your kids could end up with a much larger payout than if you had merely given them the money outright.

Whether you're protecting your estate or your income, you should consult a tax adviser before mapping out any insurance strategies. But once you decide to move, you'll find no shortage of products designed to help you make the transition from hard-charging executive to contented retiree. *William Glasgall*

NEW WRINKLES TO PROTECT YOUR RETIREMENT INCOME...

DEFERRED-COMPENSATION INSURANCE Guarantees income will be paid even if employer goes bankrupt.
Typical cost for $10 million in coverage: **$250,000**

SUPPLEMENTAL RETIREMENT PLANS Permit senior corporate executives to continue increasing retirement income after reaching maximum payout level for traditional defined-benefit pension plans. Usually funded by employers.
Typical cost for $150,000 annual benefit: **$263,000**

...FINANCE LONG-TERM CARE...

NURSING-HOME INSURANCE Provides generous coverage for long-term residential and nursing-home care. Offered through an increasing number of employers and professional associations.
Typical cost to provide $150 daily nursing benefit for 55-year-old male: **$800 per year**

...AND PAY ESTATE TAXES

SECOND-TO-DIE POLICIES Insure the lives of a husband and wife but are cheaper than individual coverage, because they pay off only after second spouse dies. Proceeds can permit heirs to pay estate taxes without selling family businesses, real estate, or art.
Typical cost of $1 million coverage for 55-year-old husband and wife: **$15,300 per year**

DATA: LAUB GROUP, NATIONAL UNION FIRE INSURANCE CO., EQUITABLE LIFE ASSURANCE SOCIETY, BUSINESS WEEK

Autos

LOOKS LIKE A T-BIRD, FEELS LIKE A LEXUS

At a casual glance, some folks mistake the new Lincoln Mark VIII for a spiffed-up Ford Thunderbird. But though they share a skeleton, these coupes are a world apart. The Mark VIII matches the elegant design and technical sophistication of some of the best Japanese wheels on the road.

The heart of the Mark VIII is a silky-smooth, 32-valve V-8. It pumps out 280 horsepower and launches the big two-door with head-snapping quickness and an authoritative snarl. It's mated to a four-speed automatic whose electronic controls respond deftly to any driving style, from leisurely to aggressive. In my test, fuel economy averaged 23 miles per gallon. One downer: The optional traction-control system that helps avoid wheel-spin worked poorly at low speeds.

A slick, computer-controlled air suspension makes for sure-footed cornering and smooths all but the roughest roads. Even blasting through hard turns, the Mark VIII remains surprisingly level, inspiring confidence. Sadly, the steering wheel doesn't transmit very well how the tires are gripping.

GET DOWN. At cruising speeds, the Mark VIII feels firm and controlled, yet smooth. But on potholed surfaces at moderate speeds, it jounces about roughly. On the highway, the suspension automatically lowers the car about an inch to improve aerodynamics and wind noise.

Inside, there's a pleasant blend of style and function. The sweeping curves of the dash and door handles are tastefully dramatic. The round gauges are easy to read, while the radio and climate controls cant inward toward the driver. The buttons are a bit small, though, making them tough to operate. But the controls for a computer that monitors everything from fuel economy to direction are mercifully simple.

MARK VIII: COMPUTER EVERYTHING —EVEN THE SUSPENSION

There's plenty of room up front, and the motorized seats quickly adjust for good support. As with any two-door, getting into the rear takes some gymnastics. Three-point safety belts protect ever seat except the center bac which has a lap belt. Bo front riders have air bags.

The Mark VIII starts a $36,640. That's less tha its competitors, the $41,9 Lexus SC400 and the $38,9 Cadillac Eldorado Tourin Coupe. Options, such a a moon roof and 10-disk, trun mounted c player, can raise the stick price to $40,043. Coupe inevitably trade off practica ity for style, but the Linco Mark VIII makes you fe that the swap may be wort while. *David Woodru*

Smart Money

JUDGING THE JUNK THAT'S STILL AFLOAT

Double-digit interest rates may be history, but the junk-bond market is the land that time forgot. These bonds are issued by corporations branded with below-investment-grade ratings because they're heavily indebted or showing poor performance. On average, junk pays about 10.3% yearly, which is more than four points above a comparable seven-year Treasury's coupon, according to Donaldson, Lufkin & Jenrette Securities Corp. analysts.

Finding the best junk is the trick. The risk of defaults (the reason the yields are so high) is down because of the recovering economy. The safest way to play this market is through junk mutual funds, which are romping. Fidelity Capital & Income posted a 28.4% total return last year. Buying individual bonds, though, takes a discerning eye.

A big risk, of course, is that an issuer will call that sweet-paying bond to refinance at lower rates. Check out the call date. Then, there's the default risk. A company's cash flow is the key factor. Is it enough to cover the interest tab? Usually, you're best off if an issuer has at least twice the cash flow needed for debt service. Beyond that, look at the company's business prospects to be sure that the revenue will keep coming.

Bally's Health & Tennis Corp., for instance, is almost at the 2-to-1 ratio. After a slump in 1991, cash flow is growing steadily. The bonus is that Bally's, which operates a chain of 331 health clubs, pays a tidy 13%. "In the past, it has been tainted by the problems of its parent," notes Kingman Penniman, head of junk research for Duff & Phelps/MCM Investment Research Co. "But that's over with." Parent Bally Manufacturing Corp. recently completed a painful restructuring.

Some companies with business problems remain enticing issuers. As a resul of local hydropower cutbacks Kaiser Aluminum Corp. ha shut down two smelters i Washington State, crimpin production. But aluminu prices are expected to rally and cash flow should sta comfortable.

DEBT DOUBTS. Other issuers however, suffer from deb levels that give bond analyst pause. Levitz Furniture Corp is in an industry on the re bound, yet it covers interes by only 1.5 times. What' worse, in 1997 much o Levitz' debt matures all a once. As the day of reckon ing approaches, its price ma slump badly.

Overall, the junk marke enjoyed a roaring 1992 an likely will keep going. "We'r showing no signs of toppin out," says Catherine Mont gomery, junk research man ager at DLJ. A lot of th shaky issues from the 1980 already have gone bust. Bu that just makes the pickin easier. *Larry Ligh*

JUNK TO COLLECT...

	COUPON
BALLY'S HEALTH & TENNIS	13.0%
KAISER ALUMINUM	12.8
UNISYS	15.0

...AND TO THROW OUT

ADELPHIA COMMUNICATIONS	12.5
LEVITZ FURNITURE	12.4
SPI HOLDING	11.5

DATA: DUFF & PHELPS/MCM INVESTMENT RESEARCH CO.; BUSINESS WEEK

dex to Companies

ndex gives the starting page for a story or feature with a significant reference to a company. Most diaries are indexed under their own names. panies listed only in tables are not included.

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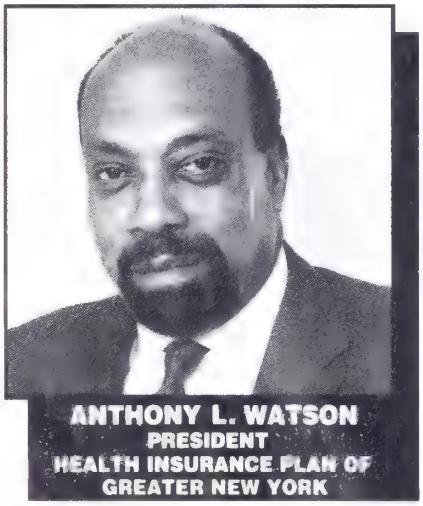
THE NIGHTLY BUSINESS REPORT

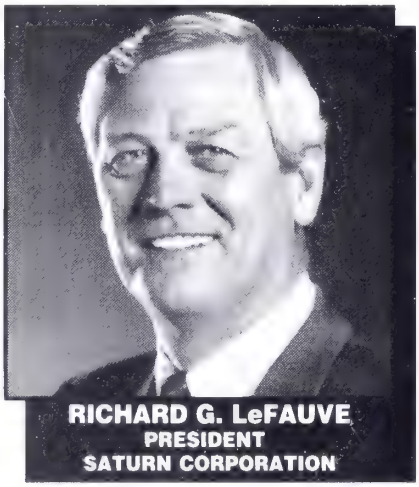
SPECIAL INTERVIEWS

From The 1993 BusinessWeek Presidents' Forum

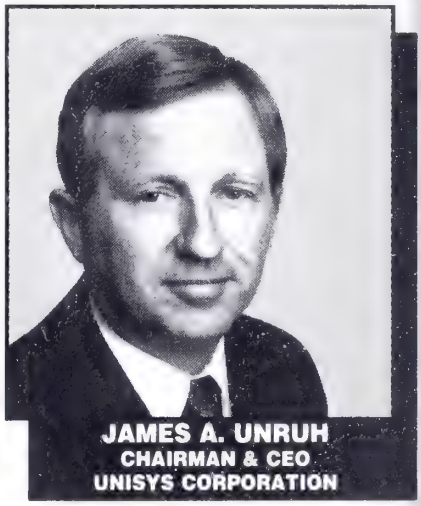
A Corporate Renaissance



ANTHONY L. WATSON
PRESIDENT
HEALTH INSURANCE PLAN OF GREATER NEW YORK



RICHARD G. LeFAUVE
PRESIDENT
SATURN CORPORATION



JAMES A. UNRUH
CHAIRMAN & CEO
UNISYS CORPORATION

Answering the Question,
"Will the values that made America great meet the challenges of the 21st Century?"

THE NIGHTLY BUSINESS REPORT

MAKING SEN$E OF IT ALL

February 16, 17, 18 on your Public Television Station

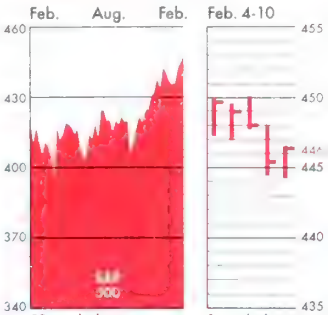
The Nightly Business Report is produced by WPBT2/Miami in association with Reuters.
Nationally underwritten by Digital Equipment Corporation; A.G. Edwards, Inc., The Franklin Group of Funds and Public Television Stations nationwide.

vestment Figures of the Week

ENTARY

w Jones industrials contin- play catch-up, scoring a in, even while the broader dexes moved down. Still, iccompaying table shows, v has underperformed the over the past year. Over- arkets were weak, especial- on, where some investors d to cash in their chips after iad pushed new highs. Both nd long-term interest rates up as the Treasury refund- Feb. 10 received a less than astic reception.

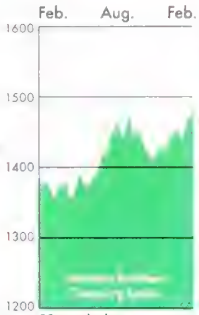
STOCKS



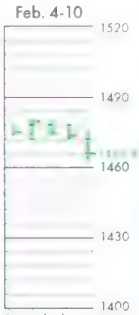
52-week change
+7.0%

1-week change
−0.2%

BONDS

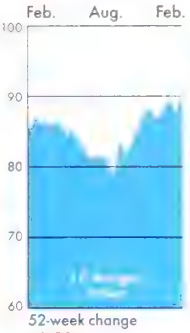


52-week change
+6.0%

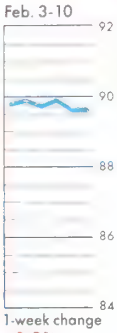


1-week change
−0.3%

THE DOLLAR



52-week change
+6.0%



1-week change
−0.2%

RKET ANALYSIS

TOCKS	Latest	% change Week	52-week
ONES INDUSTRIALS	3412.4	1.1	4.1
E COMPANIES (S&P MidCap Index)	164.2	−0.8	6.1
COMPANIES (Russell 2000)	228.7	−1.4	7.6
MPANIES (Russell 3000)	255.8	−0.4	7.7

GN STOCKS	Latest	% change (local currency) Week	52-week
N (FINANCIAL TIMES 100)	2816.4	−2.0	11.6
(NIKKEI INDEX)	17,089.9	−0.8	−20.7
TO (TSE COMPOSITE)	3443.0	3.0	−4.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	2.99%	2.98%	3.85%
30-YEAR TREASURY BOND YIELD	7.25%	7.21%	7.81%
S&P 500 DIVIDEND YIELD	2.78%	2.80%	2.95%
S&P 500 PRICE/EARNINGS RATIO	21.9	22.0	25.2

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 26-week moving average	425.5	424.4	Positive
Stocks above 26-week moving average	74.7%	72.8%	Neutral
Speculative sentiment: Put/call ratio	0.37	0.37	Neutral
Insider sentiment: Vickers sell/buy ratio	4.03	3.96	Negative

USTRY GROUPS

BRIDGE INFORMATION SYSTEMS INC

-WEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
L	13.8	46.5	ARMCO	23.1	56.1	8
NGS AND LOANS	12.8	13.3	GOLDEN WEST FINANCIAL	19.3	28.2	49 1/2
D MINING	12.5	−4.1	PLACER DOME	22.0	33.7	13 7/8
NISHINGS AND APPLIANCES	12.1	11.2	ZENITH ELECTRONICS	29.2	−15.1	7 3/4
EXPLORATION AND PRODUCTION	10.9	−0.9	MAXUS ENERGY	13.7	20.8	7 1/4

-WEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
LTH CARE SERVICES	−19.3	−14.7	AMGEN	−25.4	−22.8	52 3/8
GS	−8.7	−24.7	SYNTEX	−12.2	−59.0	19 7/8
LUTION CONTROL	−6.5	−14.3	WASTE MANAGEMENT	−8.3	−21.1	36
RUMENTATION	−5.8	9.3	HEWLETT-PACKARD	−7.4	7.8	67 3/8
ERSIFIED HEALTH CARE	−5.5	−19.5	BRISTOL-MYERS SQUIBB	−8.4	−27.3	58 1/4

TUAL FUNDS

MORNINGSTAR INC

ERS ek total return	%
LITY SELECT ENERGY SERVICE	13.0
LIFE-STATE STREET GLOBAL ENERGY	12.8
TEL	12.3

k total return	%
LITY SELECT SAVINGS & LOAN	53.5
N HANCOCK FREEDOM REGIONAL BANK B	48.8
MARK	44.8

LAGGARDS Four-week total return	%
OPPENHEIMER GLOBAL BIO-TECH	−7.8
FIDELITY SELECT BIOTECHNOLOGY	−6.5
SHEARSON SMALL CAPITALIZATION A	−4.9

52-week total return	%
LEXINGTON STRATEGIC INVESTMENTS	−54.6
UNITED SERVICES GOLD SHARES	−48.0
MONITREND GOLD	−36.4

LATIVE PORTFOLIOS

DATA RESOURCES INC

amounts sent the present of $10,000 ed one year ago h portfolio

tages indicate y total returns

Treasury bonds
$11,584
+0.78%

U.S. stocks
$11,083
+0.63%

Money market fund
$10,270
+0.05%

Foreign stocks
$10,081
+0.96%

Gold
$9,210
−0.58%

on this page are as of market close Wednesday, Feb 10, 1993, unless otherwise indicated groups include S&P 500 companies only; performance and share prices are as of market close

Feb 9 Mutual fund returns are as of Feb. 5. Relative portfolios are valued as of Feb. 9. A more detailed explanation of this page is available on request

TO CREATE MORE JOBS, LET'S SHARE THE BURDENS

For most of the 1980s, as America's manufacturing prowess weakened and its service sector grew at breakneck speed, policy circles debated whether the country was creating "good" jobs or "bad" jobs. Today, two years into economic recovery, there's a more basic concern: The U. S. economy just doesn't seem to be creating *enough* jobs (page 68). Labor Secretary Robert B. Reich reckons the economy should have created 3.5 million new full-time jobs since the trough of the recession. Instead, it has added only 500,000.

In this recovery, it seems, the traditional link between growth and job creation has been ruptured. The pressures of international competition and the lingering burden of last decade's accumulated debts doubtless explain some of the reluctance to hire. But another factor is playing an increasingly important role in discouraging the expansion of payrolls. Business today faces the escalating nonwage costs of hiring full-time workers—costs that range from health benefits to paying for compliance procedures.

Certainly, government regulations and mandates are issued to further worthwhile social goals. And laws such as the recently passed family-leave bill set a much-needed standard for corporate responsibility in America.

Still, there is a critical difference between forcing someone to do the right thing—thereby imposing new burdens and costs—and creating an environment in which most folks automatically do the right thing, figuring out the best and most cost-effective way to do so. Clearly, companies should be training and retraining workers harder than they are. But it makes no sense to load all the costs of meeting this kind of objective on employers. Instead, the burden of devoting more resources toward education and training should be spread among citizens, business, and government alike. Incentives, such as tuition tax credits and training tax credits, should be offered to individuals and businesses, while higher excise taxes on consumer goods might be used to finance such subsidies. Reich himself told BUSINESS WEEK that the Clinton Administration may offer business the "carrot" of incentives. That would be better than wielding the stick against business in a vain attempt to increase employment.

BUSINESS JURY AWARDS SHOULD BE MORE JUST

It was the stuff of every company's nightmare. On Feb. 4, an Atlanta jury awarded $105.2 million in damages against General Motors Corp. Of that huge sum, $4.2 million was to compensate the parents of a teenage boy who died when his GMC pickup burst into flames in a collision. The remaining $101 million was in punitive damages. While the jury found that GM deserved to be punished, the verdict is a stunning reminder that the courts and lawmakers have not gone far enough in controlling the awards (page 38).

Punitive damages promote a valid public policy by punis ing companies for reckless or intentional wrongdoing. B such awards remain too unpredictable and inconsistent. Som 27 states have enacted reforms, but they vary in the kinds suits they cover and how they operate. And reforms eight states require that part of a punitive-damages award paid not to the plaintiff as a windfall but to the state.

When the U. S. Supreme Court last reviewed the issue punitive damages in 1991, it offered only limited guidance f evaluating the awards. And state courts have since clashe with each other in how they've interpreted the ruling. At th same time, because most states lack caps, punitive damag offer the prospect of giant awards for relatively minor inj ries, pressuring companies to settle. In a case pending befo the Supreme Court, the jury awarded only $19,000 in atto neys' fees but ordered $10 million in punitive damages, or 5 times the amount for the actual injury.

The Supreme Court could avoid some of these problems b setting rules for when punitive damages are excessive. Co gress could also help lessen the uncertainty by enactin procedural reforms, such as a uniform standard of proo Such changes will help ensure that companies that are rec less or break the law will be punished fairly, not irrational

KEEP CHINA ENGAGED, BUT POLITICALLY ACCOUNTABLE

As the debate heats up again in Congress over China most-favored-nation status, it's time for U. S. CEOs t go public with their case in Washington: Corporat America can't afford to be shut out. The stakes are eno mous. The breathtaking economic growth triggered by Den Xiaoping's market reforms has transformed China into a emerging economic superpower that by the year 2020 coul have the world's largest economy and that may surpass Ja pan as a market for U. S. exports long before that.

China's domestic economy is already surprisingly open t companies like General Motors, Procter & Gamble, and Mo orola. With hundreds of billions of dollars worth of telecom munications, power, and transport projects in the work China may well make or break the global competitiveness Boeing, AT&T, and General Electric. The challenge for th Clinton team is to craft policies that force Beijing to pa dearly for human rights abuses and any military expansio ism but that keep the two nations economically engaged.

In the past two years, threats of retaliation have force China to adopt intellectual-property rights protection an rewrite its trade rules. Completely delinking trade from hu man rights is impossible. But rather than reflexively reac ing for the MFN button, the U. S. should more aggressivel use other means of pressure. For example, Washingto should adamantly oppose Beijing's bid to host the Olympic in the year 2000 and continue to treat top leaders as interna tional pariahs. Such action won't bring change overnigh But at least the Chinese people and their leaders will unde stand that no matter how well their economy perform they'll never be full-fledged members of the community of na tions while thousands of dissenters languish in the gulag.

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